



COVER STORY

GET ADVICE YOU CAN TRUST

Before using financial planners, make sure they have your — and not their best interests at heart



Geoffrey Newman

INTELLIGENT and independent financial advice is what everybody agrees they want from a good financial planner or adviser.

But it seems many people still don't know whether the advice they are getting comes with strings attached. A Roy Morgan Research survey of the industry found a significant minority of people who use a planner or adviser owned by one of the big planning firms, and in the case of some firms a majority, did not know their adviser was tied to the maker of the investment product.

Almost two-thirds of clients of Commonwealth Bank financial planning brand Financial Wisdom were unaware of the link with the bank and more than half of the clients at Hillros, owned by AMP, were similarly in the dark.

This is important because these advisers show a clear preference for recommending investments manufactured by their parent companies.

According to Roy Morgan, clients obtain, on average, about 74 per cent of their superannuation products through financial planners who are also part of the organisation that produced the product.

Planners are required to disclose such links to their clients but the survey suggests the message is not getting through.

Pitcher Partners executive director Sue Dahn says one simple change the federal Government could make is to require advisers who act as sales agents for product distributors to be given their correct title.

"If you are effectively a sales agent then I don't believe you have earned the right to call yourself an adviser," Dahn says.

Clients should not expect that an agent will look at all investment options with an unbiased eye. "When I go into a Mercedes dealer I don't expect to walk out with a Toyota," she says.

Dahn recommends clients ask their planner a series of questions to determine how independent they are, including who owns the business and how the adviser is remunerated.

But questioning an adviser at length can be a tough ask, says Wendy Schilg, executive director of the National Information Centre on Retirement

Investments.

With their sharp suits and shiny brochures professional planners can be intimidating people. Schilg says many of the calls her organisation receives are from people who feel unable to question the advice they receive and want NICRI to act as an intermediary between them and the planner.

Schilg says it is essential to interview three or four planners before choosing the right one, even if they may charge you an upfront fee to go into detail on your financial circumstances.

There is a growing drumbeat within and outside the industry that the only way to create a culture of independence is to remove the incentive to do the wrong thing by abolishing commissions.

High commissions have been cited as a prime cause of the Storm Financial collapse, where planners encouraged their clients to leverage into the share market and received much higher commissions as a result.

"The simple fact is that a person's behaviour will be determined by the manner in which he or she is financially rewarded," writes chartered accountant Robert Brown in a seminal paper on the issue. "Any remuneration model that is constructed around the sale of products is likely to result in the sale of products. This is hardly a surprising outcome."

Peter Johnston of the Association of Independent Financial Planners says it will be difficult to ban commissions outright. He expects the Government will lean on the big banks and fund managers to find a new model.

The Financial Planning Association says banning commissions would be draconian and promotes "unbundling" the distributor's fee from the adviser's so clients can negotiate the latter. This is already available on most of the major investment platforms, says the FPA's Jo-Anne Bloch.

Publicly, the Government is giving the industry the opportunity to clean up its act first.

"The minister has asked product providers to look at their fees and charges and to come up with ideas for sustainable remuneration models so that advice and product are recommended only in the best interest of the client," a spokeswoman for the Minister for Superannuation and Corporate Law, Nick Sherry, said.

The Government is also working on a proposal to reduce the upfront costs of paying for advice by making it easier to get simple questions answered by your superannuation fund.

At the moment, the cost of advice is considerable. According to a report from Rice Warner Actuaries commissioned by the Industry Super Network, the average cost of seeking advice on, for example, the Government's co-contribution scheme from an industry fund adviser is \$660 and from a retail planner, \$3876.

It at least partly explains FPA data that 7 out of 10 Australians do not use a qualified planner.

Advisers moving to upfront charging are also trying to bring the cost down with alternative remuneration models such as "Gold, Silver and Bronze" classes of service.

Robert Brown says the commission system is a symptom of the low quality of advice Australians

have been prepared to put up with.

A move to upfront fees will show that the quality of advice is improving, he says.

“The reason most of these people do not wish to pay a fee direct to a planner is because they are not convinced that the advice is worth much (or anything), believing it to be motivated principally by the imperative to sell a product,” he says.

Industry super funds, which promote their refusal to pay commissions to financial advisers, have called for legislative change to force advisers to act in the “best interest” of their clients.

Industry Super Network executive manager David Whitely says the change would undermine the commission system by requiring advisers to put their clients’ nest egg ahead of their own financial interest. The FPA will insert a similar “client first” principle into its code of ethics from July.

But even those planners who are confident that their recommendations to their clients are untainted are still under pressure from those they serve as a direct result of the financial crisis.

Peter Johnston says the industry was in the middle of a post-mortem of its clients’ investment losses and felt under pressure to come up with answers.

“This last 18 months has changed the parameters on everything,” Johnston says.

“We feel as if we have to get back to our clients saying ‘this is what we have learned’.”

Johnston says planners are not only questioning themselves but also the value added by fund

managers versus cheaper index funds as well as the worth of ratings agencies, who rate the funds but who themselves face conflicts of interest because they are paid by the funds they are rating.

Denys Pearce, executive director of Plan B Wealth Management, says while there are strong legal requirements on disclosure around investment advice, there is not enough onus on planners to ensure their clients understand the advice they are receiving. “We think in a lot of cases the client didn’t understand it at all,” he says.

Many in the industry believe that when clients better understand the advice they will realise their risk profile is too high and will want to be invested more conservatively.

This also poses a problem for planners who receive a commission, part of which is a regular “trail” payment that lasts for the life of the investment. Johnston says advising clients to put their money into cash is simply not as lucrative.

“Cash pays a lot less trail than money sitting in a managed fund,” he says.

The notion that clients must stick to their investment plan (usually a heavy reliance on stocks) no matter what is happening in the market is starting to be questioned by academics and institutions, Sue Dahn says.

Dahn says good planners should have seen a downturn coming and moved at least 20 to 30 per cent of their clients’ funds into cash as a precaution.

“This ‘buy and hold’ mentality is under pressure,” she says.



The right title: Pitcher Partners executive director Sue Dahn says sales agents should not call themselves financial advisers

Picture: Michael Potter

TIES THAT BIND

Percentage of clients who believe adviser is independent or tied to product distributor

Financial planning group	Brand	Tied	Independent	Accountant	Financial planning group	Brand	Tied	Independent	Accountant
AMP	AMP	69	28	3	CBA	Commonwealth	71	14	15
	Hillross	40	56	5		Colonial FS	57	37	6
	NAB	77	14	9		Financial Wisdom	32	64	4
NAB/MLC	MLC	63	33	4	AXA	AXA	66	31	3
	Garvan	30	66	4		Charter FP*	30	34	36
	Godfrey Pembroke	43	57	0	ING/ANZ	ANZ	69	17	14
	Apogee	40	51	9		RetireInvest	45	53	3
	AdvantEdge*	17	45	37	WESTPAC	Westpac	78	14	8

Data period: July 2005 to September 2008. *Due to small sample size, figures should be treated as indicative only.

Source: Roy Morgan Research