



1 June 2009

Ms Jo-Anne Bloch
CEO
Financial Planning Association
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By email: professional.standards@fpa.asn.au

Dear Ms Bloch

Financial Planner Remuneration Consultation Paper

Thank you for the opportunity to provide comments on the Financial Planning Authority's (FPA) consultation on planner remuneration. CHOICE (Australian Consumers' Association) is Australia's leading consumer voice and publisher of *Choice Magazine* and *Choice Online*. CHOICE is a not-for-profit, non-government, non-party-political organisation established in 1959. CHOICE works to improve the lives of consumers by taking on the issues that matter to them. We arm consumers with the information to make confident choices and campaign for change when markets or regulation fails consumers.

Whilst we welcome the FPA's consideration of financial planner remuneration we believe far greater reforms of the financial planning industry are required than those envisaged in the *Financial Planner Remuneration Consultation Paper* (the Consultation Paper). In short we believe that the proposals don't go far enough or fast enough to reform planner remuneration in Australia.

In well-established professions, the importance of trust and confidence to the adviser-client relationship has given rise to a fiduciary duty, which imposes the highest standards of impartiality, independence and integrity on the adviser (with the legal profession a clear example). The origins of financial planning are different and more recent. The sales role and culture of many financial planning dealer groups and practitioners arises out of the life insurance context and in many cases more closely approximates that of 'investment broker' than independent, professional adviser. This generates enormous conflicts in the role of financial planners and creates the structural corruption within financial services that is of such great concern to CHOICE.

CHOICE is calling on the FPA to remove all conflicted remuneration and financial incentives from the financial planning sector. We believe that the following steps need to be taken to deliver a financial advice industry consumers can really count on:

- Commissions, trails and asset-based fees should be excluded from planner remuneration
- All clients should be given the opportunity to switch off *all* existing trail commissions
- Soft-dollar payments should cease
- All payments from product manufacturers to licensees should be phased out

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The FPA has excluded soft-dollar benefits and other payments to licensees from its Consultation Paper. We urge the FPA to look at all three areas of remuneration to planners and take action to remove these conflicted payments.

Financial incentives directed at advisers and licensees to promote and sell products are conflicts so profound that they cannot be mitigated by disclosure alone. Equally unacceptable are remuneration arrangements that bias particular investment strategies. These practices are anti-competitive and anti-consumer practices and we believe that they should be removed from the advice industry.

We believe the industry must adopt fixed fees for fixed advice services and reject all hard dollar and soft dollar payments from product manufacturers to licensees and advisers. This approach will reward advisers that truly place their client's interests first and create newfound confidence in the financial planning industry.

The FPA claims it is adopting a client-oriented remuneration strategy but we believe that a true client-oriented approach would ensure that clients are able to access fixed dollar fees from planners.

Consumers face increasing pressure to take responsibility for their financial security during working life and beyond. Since the late 1990s there has been an explosion in the number and nature of financial services and products available to retail investors. Faced with an often bewildering array of choices (and mindful of the consequences of making the wrong one) people seek out advice when devising a financial strategy for their needs and selecting appropriate financial products. There will be an increasing need for reliable advice in the future, particularly as superannuation continues to grow, and as people face greater challenges in meeting their financial needs. People will, however, be deterred from seeking such assistance if the adviser they engage is conflicted to such a degree that the advice they provide is not reliable.

We acknowledge that this requires a great many changes. However, until such time as these reforms are enacted we believe the industry will continue to be tainted with a reputation of bias, partiality and untrustworthy advice.

Yours sincerely

Elissa Freeman
Senior policy officer