



AUSTRALIAN
INVESTORS'
ASSOCIATION

Media Release

**For Immediate Release No. Date: 12 August 2005
02/05**

Australian Investors' Association

Financial Planners sell Cars? - "The Truth is Out There"

How refreshing is **Financial Planning Association** chairwoman Kathryn Greiner's recently reported comment: "When you go into a Holden dealership to buy a Holden, you don't get a Ford,"

Refreshing because at last someone at the FPA has acknowledged the similarity between most financial planners and car salesmen.

Any consumer who uses a financial planner employed by, or associated with, an investment product provider (bank, insurance company or fund manager) is taking a huge risk with their future financial security. The risk and the reality is that they will be sold an associated product. (around 80% of 'financial planners' fall into this category)

The Financial Services Reform Act has made it 'legal' for the tied planners to flog whatever investment gives them the greatest commission as long as they get the paperwork right! The principle is disclosure i.e. as long as you tell the client in writing that you are going to rip them off you will get away with it. It is a bit like a bank robber getting away with it as long as the robbery is preceded by the announcement "this is a stick up".

People may think, surely if clients read the disclosure they will not allow themselves to be sold a pup, but that is the point: Consumers do not go to a financial planner to be given reams of paperwork to read through carefully and cautiously. They **go to a financial planner for advice** and do not expect to, or want to, read page after page of cleverly and carefully constructed prose to make sure that they are not getting ripped off. To stay with Mrs Greiner's well chosen analogy how many car buyers ever read the car sales contract or the warranty agreement?

The simple truth is that if you deal with a tied adviser you add another level of risk to

your financial plan and that is the risk that you will be dealing with an investment seller no matter how much he or she claims to be a certified financial planner.

Thank you Mrs Greiner for your analogy which we see as a consumer friendly statement. We hope you back it up by taking positive action to remove the investment sellers from your association. How much longer can your FPA strive to become a recognised association of professionals while it carries the burden of the bulk of its members being commission driven salespeople?

For Background story see Page 3

Contacts:

Robert Andrew, President,
Tel: 07 3892 5529

David Child, Treasurer,
Tel: 07 3374 1175

No excuse for sloppy advice on switching

By Annette Sampson
The Age
August 6, 2005

After more than eight years in the making, you'd expect the financial services industry would have been more than ready for last month's introduction of superannuation choice. But the way financial planners are squawking about the latest Australian Securities and Investments Commission review of the advice given to people switching super funds, you'd think choice was a bolt from the blue.

The review is yet another slap in the face for financial advisers - though the regulator points out it was conducted to highlight potential problems to the industry rather than being an overall report card.

It looked at 260 instances where advisers had recommended a switch of super funds. The advisers came from 19 financial planning licensees.

ASIC found three basic problems. First, while the advisers may have given their clients good information on the new super fund they were recommending, there was often limited information provided on the old fund. You'd think that if an adviser was telling you to switch your super to a new fund, he or she would be doing so on the basis that they knew you'd be better off. But ASIC says most of the files it reviewed showed the adviser had made limited or no investigations into the old fund.

This created situations where some investors ended up in funds that charged more for similar offerings or lost benefits in the move. ASIC says some clients, for example, ended up in funds with considerably more expensive insurance while in another case the adviser recommended a fund that bore no relation to the client's stated goals and was more expensive into the bargain.

ASIC says another adviser recommended their client switch to get access to a wider range of investment options - even though their existing fund had similar options at a lower cost.

And then there were the advisers who tried to cover their backsides by including catch-all disclaimers in their advice. Of particular note was the adviser who wrote: "I cannot give advice in relation to [the old fund] and I am unable to comment on the quality."

Very reassuring.

The second problem area identified by the regulator was poor disclosure of the costs and other consequences of switching. ASIC found a number of advisers made only general statements that there may be costs or loss of benefits incurred. Again, higher insurance costs (and the potential loss of automatic

insurance cover) and increases in fees were outcomes from switching that were not clearly disclosed to the client.

But while these two problem areas are worrying, they are also relatively easy to fix - provided the regulator and reputable licensees are serious about making planners do their jobs properly.

That's not the case with the third problem area. While ASIC reviewed only 260 switching recommendations, its statistical data looked at 4900 switching recommendations during the review period and found 90 per cent of these advocated a switch to a related fund.

While the Financial Planning Association was quick to point out that recommending related funds is perfectly legal, it's impossible to believe these were the most suitable funds in nine cases out of every 10. Not surprisingly, ASIC found disclosure of the reasons behind this advice was often poor and some investors were persuaded to switch to higher cost funds without any additional benefits.

This inbuilt conflict of interest is exacerbated by big institutions owning the bulk of the financial planning industry, and they certainly didn't build up these networks so that their planners could channel clients' money to someone else.

ASIC requires planners to disclose any conflicts of interest when giving advice. And, as the FPA rightly points out, it would be absurd if advisers couldn't give advice on related funds.

But it's a real case of buyer beware. FPA chairwoman Kathryn Greiner's reported comment this week: "When you go into a Holden dealership to buy a Holden, you don't get a Ford," says it all about the industry's attitude, but offers little reassurance to investors.

The FPA has argued that, because these recommendations were made in the latter part of last year, they shouldn't be given too much importance. The industry, it argues, has moved on.

Let's hope so. But choice isn't something that has been sprung on financial planners. It has been Coalition policy since it was elected, and despite consecutive hold-ups in getting it through the Senate, its introduction has long been inevitable.

Planners knew they had to get their act together, and had a couple of earlier uncomplimentary shadow shopping reviews from ASIC to motivate them to smarten up, regardless of choice.

ASIC is dead right when it says that, at the time this review was undertaken, it revealed "an unacceptable level of problems". The same results would have been unacceptable regardless of when they had been uncovered, despite the planners' contention that ASIC's choice guidelines for planners were issued only in June. No decent planner needs ASIC to tell them their clients want to be better off as a result of their recommendations.

The regulator seems to think that with these guidelines out, all the chooks are lined up for choice. But it's keeping up its surveillance work anyway - starting with a shadow shopping exercise of advice given to consumers who want to change super funds.

The review suggests it will also need to get its enforcement stick out. The time for lame excuses is over and further molycoddling of those offering poor advice will only erode confidence in the regulator itself and those advisers who do get it right.