POST ROYAL COMMISSION:

THE 5 QUESTIONS YOU NEED TO ASK WHEN YOU WANT FINANCIAL ADVICE

Courtesy of The Profession of Independent Financial Advisers
www.pifa.org.au

Introduction

Now that it has done the impossible by winning the election, will the Coalition do the improbable by keeping its pre-election promises to improve the quality of financial advice? More importantly, what can you do to apply the lessons learnt from the Royal Commission when seeking advice?

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, over a period of some 18 months, reviewed over 10,000 submissions and interviewed, very publicly (and on occasion very dramatically) 130 witnesses. What was exposed by Commissioner Ken Hayne, was a shocking culture in which the industry prioritised its own interests often to the detriment of the customer.

There were 76 recommendations made by the Royal Commission in February this year and the Treasurer, Josh Frydenberg, undertook to “take action” on all of them. “My message to the financial sector is that misconduct must end and the interests of consumers must now come first,” he said.

There is enormous complexity in the 1100 pages that explain the Royal Commission’s recommendations, however there are some key points the Commissioner made that, if implemented, go a long way to improving the quality of the advice you’re entitled to.

Working with a financial adviser

Several recommendations deal directly with the way you interact with your financial adviser so as to increase the quality of advice and value for money for the advice you're paying for. Under these provisions financial advisers would be required to:

- disclose whether they are independent under the law and, if not, explain the reasons why, and
- proactively ask you each year to renew any ongoing service you are obtaining from them

Conduct and reward

Because there is a very strong connection between conduct and reward, the way your adviser wants to be paid is noteworthy. Conflicted remuneration (like commissions and fees linked to how much you invest) has been found to erode the quality of advice in 'Shadow Shopping' exercises run by the ASIC for well over a decade and although the Royal Commission didn't ban conflicted remuneration immediately, it did recommend that this should be the goal.

Super simplicity

Australians' superannuation savings represents a very large pool of wealth and therefore the way it is managed is crucial. Key initiatives the Coalition promised are:

- To ban advice fee deductions from MySuper accounts, and
- To place conditions on the purpose for which fees may be deducted from super accounts generally.

Together, these initiatives are designed to preserve members' funds and ensure they are being managed in the way the legislation intended.

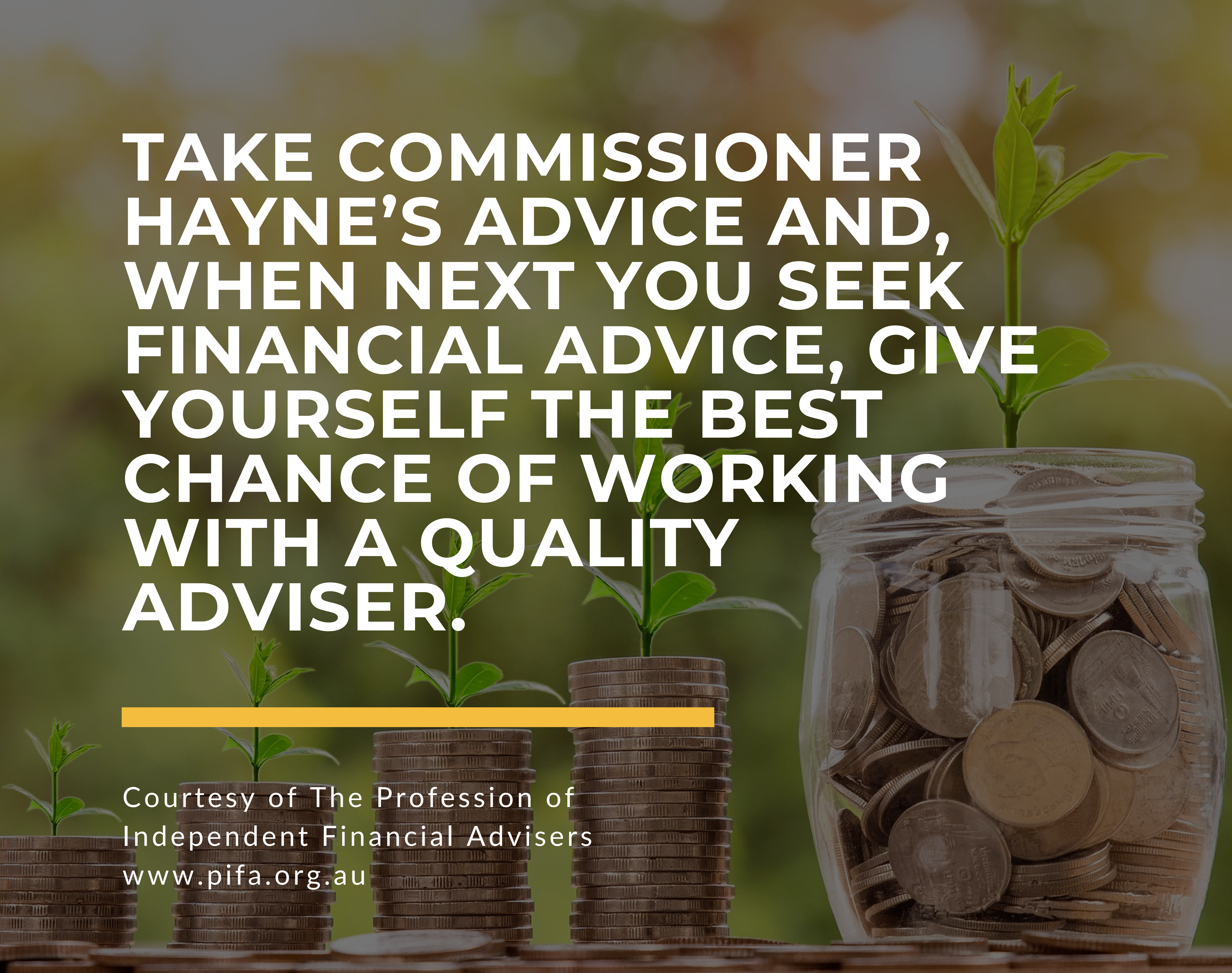
A checklist for quality advice

The Royal Commission released its recommendations in February and the government immediately announced their intentions to follow through. Whereas we expected these reforms in financial services to feature in the government's election campaigning, barely a word was uttered.

Why wait for the government to act?

Whether the Coalition delivers on its promises or not, there IS something YOU can do to look out for yourself when navigating the self-interested financial services industry. We suggest you use the recommendations from the Royal Commission as a checklist for ensuring the adviser you deal with is of a high quality:

- **Are you independent under the law (and if not, why not)?**
- **Can you list what services are you offering to provide me?**
- **Do you charge fees in a way that is completely divorced from any transactions I enter into?**
- **Will you refund to me any commissions payable from products I buy?**
- **If I hire you ongoing, will you pause at 12 months to review what you've provided and plan out what we're going to do together next year?**



TAKE COMMISSIONER HAYNE'S ADVICE AND, WHEN NEXT YOU SEEK FINANCIAL ADVICE, GIVE YOURSELF THE BEST CHANCE OF WORKING WITH A QUALITY ADVISER.

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About the Profession of Independent Financial Advisers (PIFA)

THE PROFESSION OF INDEPENDENT FINANCIAL ADVISERS GUIDES AUSTRALIANS ON HOW TO FIND FINANCIAL ADVISERS WHO PRACTICE WITHOUT INCENTIVE AND WITHOUT CONFLICTS. IT ALSO EDUCATES AND PROMOTES THE GOLD STANDARD OF INDEPENDENCE™ FOR FINANCIAL ADVISERS IN AUSTRALIA.

In 2009, our industry's regulator, the ASIC, made a submission to government that was designed to restore investor confidence in the financial markets and protect retail investors. The ASIC went on record saying that the typical financial planner acts as a "sales force for financial product manufacturers" and that advisers are "a product pipeline".

Eighty-five per cent of financial planners are associated with a product manufacturer, who are paid by commission or asset fees (commissions by another name). The ASIC says these commissions and product affiliations are conflicts of interest which "distort the quality of advice" and should be banned.

The leading consumer advocacy group in Australia, CHOICE, is lobbying for the same thing.

A New Era

In that same year, the Independent Financial Advisers Association was established. Our aim was to join forces with the likes of the ASIC and CHOICE with the purpose of promoting "genuinely independent" financial advisers to stand out from the rest of the financial planning community. These advisers practice the Gold Standard of Independence™ of what is now the Profession of Independent Financial Advisers.

Find out more at www.pifa.com.au

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