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Investors call for reconstruction of financial services industry

The Australian Investors Association (AIA) has called on the Ripoll Inquiry into Financial Products and Services to stand firm and take on the tough task of reconstructing the financial services industry. The Inquiry is due to report in 3 weeks.

Unless some tough decisions are made, positive consumer sentiment and the improving economy could see the re-emergence of the financial environment that bred disasters such as Storm Financial, Opes Prime and other similar collapses which decimated the savings of many Australians.

'This is not a time for a band-aid solution,' said Jolyon Forsyth, President of the AIA, as he called on the Inquiry not to falter in its deliberations.

'Australians should take individual responsibility for their own lives and make their own financial decisions, but there is an urgent need to raise their understanding about financial and investment matters,' he said.

'A comfortable retirement is within the means of every working Australian but only if they can get the information they need to make good decisions.'

The AIA is a not-for-profit organisation dedicated to investment education. Government assistance for improved investment education for consumers is one of ten recommendations it made to the Inquiry.

As risk management plays a large role in wealth creation, the AIA has also recommended the provision of simple investment risk signals for consumers.

'We desperately need a system that signals the magnitude of the risk of investing and of specific investments,' Mr Forsyth said.

Each year investment horror stories are reported to the AIA. People have lost hard-won savings, not because they were greedy or stupid, but because of commission-based incentives for the financial advisory industry and the lack of independent information.

In its submission to the Inquiry the AIA recommended some grass roots changes. It wants to see the removal of the conflicts of interest that are inherent in the industry by banning commissions or requiring that payment for advice be made directly by the client. It has also called for the separation of the sales and advice functions within the financial advisory industry.

‘Financial advisors can’t be allowed to continue to operate as they do now,’ says Mr Forsyth. ‘It should be made clear that financial advisers have a fiduciary duty to their clients, and that they will be held to this higher standard of conduct. We don’t want salesmen giving us advice about investments. We want a trusted professional to do this.’

The AIA has called for the provision of professional services by advisers with more stringent education requirements, acceptance of fiduciary responsibilities, and supported by better regulation and increased regulatory enforcement.

‘Given the significance of advising people on how to invest their life savings there is a strong case for a registration process in which entry qualifications are established, standards for performance are set and the behaviour of registrants monitored and individuals held to account.’

The AIA has recommended legislation to require financial advisers to have degree-level qualifications in financial planning and investment advising and two years supervised experience.

The AIA also recommends that the ownership of financial advisory firms be made clear in advertising and documents provided to clients in order to address the illusion of independence of advisory firms connected with banks.

The AIA’s ten recommendations for rebuilding the financial services industry are:

- Remove the inherent conflicts of interest at present in the financial advisory industry
- Separate the sales and advice functions within the financial advisory industry
- Raise the low educational level for those who become Registered Financial Advisers.
- Address the illusion of independence of advisory firms connected with banks etc.
- Provide a system of simple investment risk signals for consumers.
- Require payment for services to be initiated by the client
- Encourage the client to be more in control of the investment process
- Promote investment education for consumers
- Facilitate the emergence of a professional service provided by advisers
- Provide better regulation and increased regulatory enforcement

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