Media Release

24 February 2011

Australian Investors say OK to Opt-in on Financial Advice

Australian Investors Ask "Trusted Profession or Product Sales-force?"

Discussion is heating up over the finishing touches to the government's draft legislation on the Future of Financial Advice reforms (FOFA), which is understood to be released in around a month, with various interest groups submitting their views in order to attempt to influence the final details.

Central to the government's proposals are: the 'opt-in' provision which requires that investors agree annually to a financial advisor's fee; and the removal of commissions and volume-based payments on investment products.

The Australian Investors Association (AIA) which represents the views of thousands of investors across a range of asset groups, is in broad agreement with the government's measures aimed at enabling full transparency on fees for service and banning commissions and volume-based payments, and on requiring clients to 'opt-in' each year for ongoing advice and service.

The FOFA changes to the way in which the financial services industry is remunerated have been brought about by scandals such as the collapse of Storm Financial and Westpoint where investors were charged fees on loans taken out without their full understanding and which resulted in some investors being left destitute.

The 'opt-in' provisions will require an advisor to contact every client every year to obtain their agreement for ongoing services to be provided and consent to on-going fees being charged.

A recent Newspoll survey, commissioned by the Industry Super Network (ISN), conducted during February found that nearly 75% of consumer respondents were in favour of the annual renewal of ongoing fees. Further, of those that had used a financial advisor, 85% preferred to pay for advice via a set fee or hourly rate as opposed to ongoing deductions from their investments or superannuation accounts.

The financial planning industry has long been remunerated for automatic trails and other commissions for ongoing advice fees for doing very little if any work directly with their clients to justify these.

Robert Brown writing in The Australian 23/2/2011 sums up the contradiction of a modern financial planning industry. “On the one hand, it aspires to be treated as a trusted profession; on the other, it reserves the right to act like a product sales force.”

The financial services industry claims that the opt-in provisions will cause cost blowouts associated with contacting clients every year to obtain their agreement for ongoing services to be provided and consent to an ongoing fee being charged.

With regard to the other major reform proposal, the ban on commissions will only be on those investments made after the legislation is law. Existing investments attracting trailing or other commissions will remain unless investors want to reduce these or sell them.

A by-product of the current consumer skepticism surrounding the financial services industry is the growth in self-managed superannuation funds (SMSF) as stated in *The Australian* 23/2/11 where Simon Hoyle reports that 500 new SMSFs are being set up every week.

AIA would like to see a strong financial planning industry brought about by reforms based on ethical principles and transparency in which the investor is an active participant and partner with an advisor in making financial decisions affecting their future.

Media contact: Scott McKenzie, Vice-President, Australian Investors Association,
Phone: 0418 742 301
Email: scott.mckenzie@investors.asn.au

END MEDIA RELEASE