



Planners' way to go

Alan Kohler applauds two young financial planners

A EUREKA REPORT SUBSCRIBER who is also an AMP financial planner wrote to cancel his subscription the other day. He said he liked the content and generally found it useful, but he could no longer stand my constant “sniping” at financial planners.

I've been sniping at financial planning for more than five years, but not at financial planners – there is simply too big a spectrum of them to generalise. Many planners who receive sales commissions are very good; many who don't, and who adopt the high moral ground, are hopeless. The problem is the system.

But I'm not sniping any more because I don't need to: change is coming. The Ripoll Inquiry will report later this month, spurred into action by the incredible suffering caused by the collapse of Storm Financial in North Queensland.

As part of that inquiry, the Australian Securities and Investments Commission recommended the banning of commissions in financial planning, and percentage-based remuneration in general.

The only controls have never worked and never will

The Super System Review headed by former ASIC deputy chairman Jeremy Cooper is also putting pressure on fees.

The debate has narrowed to three possible methods of payment: commissions, percentage of funds under advice, and hourly rates like lawyers and accountants.

I have long held the view that hourly rates are preferable but a percentage-based fee for service is better than a commission. While percentages tend to be too high, at least they can be negotiated between adviser and client – they are not set by the investment product promoters



with the aim of flogging the products.

And it's also true that percentage fees tend to cross-subsidise the less well off: people with big account balances pay more than those with small amounts.

Then ASIC came out with its stance against percentage fees as well as commissions. Maybe, just maybe, we can get to a situation where financial advisers are entirely independent and are paid like accountants and lawyers.

And the answer to the proposition that poor people would be disadvantaged by hourly rates and flat fees is that usually they don't actually need advice at all – like they don't usually need accountants and lawyers.

Most of the time people with small account balances and modest means should simply save with a large industry super fund and forget about it.

But it's not just regulators like ASIC and “snipers” like me who are transforming the financial planning industry – it's the new generation of planners, people like Tim and Claire Mackay of Chatswood in Sydney. Both in their 30s, they now work in their father Bill's financial planning firm, Quantum Financial Services.

Tim says: “I want to be proud to call myself a financial planner.” A couple of months ago Bill, Claire and Tim wrote a

submission to the Ripoll Committee that perfectly sums up what's happening to this important Australian industry:

“Like many of our colleagues in the industry, we have a business and revenue bases to protect. However, as most Quantum Wealth Advisors are members of the younger financial advice generation with 30+ years ahead of us in the industry, it would seem short-sighted to just focus on current revenue protection.

“Industries evolve. We believe that if we defend commissions, argue that commissions should be phased gradually out, that commissions should be grandfathered, or that commissions should be legacied, we are taking a lazy approach and we are not being pro-active in justifying to our clients and potential clients that our advice services are truly worth paying for.”

The Mackays made seven recommendations to the inquiry that boil down to empowering consumers, distinguishing between the terms “financial planner” and “financial adviser”, and lifting educational and ethical standards. And no commissions set by product providers – definitely no commissions.

ALAN KOHLER

The *Eureka Report* founder and ABC broadcaster is a 38-year veteran of financial journalism.