Advice reforms can't wait

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More scrutiny … the new head of ASIC, Greg Medcraft. *Photo: Arsineh Houspian*

The financial planning industry is making a concerted, last-ditch effort to delay the government's intended reforms of their industry. Members of the industry say the reforms will increase the red tape they have to deal with and raise the cost of advice for consumers. But the Australian Securities and Investments Commission (ASIC) has given some details of the results of its shadow shop of financial advice it conducted last year. While the full results will not be released until next month, the regulator says only 3 per cent of financial plans were graded as "good".

It's a timely reminder of what is at stake with these reforms and why they must be passed by Parliament without delay.

Last month, a parliamentary inquiry into the proposed Future of Financial Advice (FOFA) reforms met for the first time. The Coalition wants to amend and delay the reforms well beyond the July 1 start date. The Financial Services Council, the members of which include the banks and insurers who employ many planners, wants a 12-month delay to the start date for most of the reforms.

The government's proposed reforms include the banning of commissions to financial advisers and putting planners under a legal obligation to put their clients' interests before their own.

ASIC will be given more powers to ban individuals from the industry and to revoke Australian Financial Services licences. And every two years, the clients of advisers will have to agree to continue to receive ongoing financial advice.

This opt-in requirement is very important. While commissions will be banned, asset-based ongoing fees will not. Without the opt-in requirement, a planner could continue to receive fees as a percentage of the client's money without ever having to talk to the client.

In its written submission to the inquiry, ASIC says the shadow shop will show a "significant level of poor advice". A commissioner with ASIC, Peter Kell, told the inquiry 36 per cent of financial advice plans obtained by the regulator from throughout Australia for the shadow shop were graded as "poor".

The reforms have been a long time coming and follow a string of collapses, such as Westpoint, Storm Financial, Fincorp, Basis Capital, Great Southern and Timbercorp - to name just a few.

Though the money was invested in all sorts of things, there was a common thread: planners and their employers received commissions from the product providers. The commissions were usually higher than those paid by other investment providers.

In its written submission to the inquiry, the regulator makes clear its support for the reforms: "The best-interests duty, and also the other reforms proposed in the FOFA bills, will improve the quality of personal financial advice provided in Australia by more closely aligning the interests of advisers with their clients."

No doubt the findings of the shadow shop have only strengthened the regulator's view. And the release of the results should help remind everyone why the reforms are so important.

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