

Old issues beg new answers

Plenty has happened in the past five years in the changing world of financial advice, but there is still a need for planners to provide clear leadership to their clients, JIM STACKPOOL writes.

THE DOW Jones Industrial Average is edging up towards a record high as I write this column, flagging another good Christmas for advisers. But what has happened to our industry since the last Dow Jones record of January 2000? The industry has changed, but not necessarily for the better.

There's no doubt financial planners are adaptable. Soft-dollar incentives, financial services reform, superannuation reform, increased competition from industry super funds and savvy marketing groups like Virgin Money have changed our industry. The review by the Parliamentary Joint Committee on Corporations and Financial Services, chaired by Senator Grant Chapman, will also change how we do business.

But are Australians making smarter investment decisions now compared with five years ago? Is the industry giving better leadership to help clients meet financial goals more efficiently? Have we convinced more Australians of the value of advice? Probably not.

The strongest leadership our clients have seen in the past five years hasn't come from financial planners. Financial services reform legislation attempted to create new leadership for consumers. Unfortunately, its product focus led to mountains of confusing paperwork.

The media has confused our clients with sensational descriptions of our growing pains. As a result, it has pushed the status of the financial planner to the lowest possible professional rung. Industry super funds have burst out from obscurity, and everyone else is a crook.

The Australian Securities and Investments Commission, too, has started enforcing a new brand of leadership. The directors of AMP Financial Planning are the first – with more to come – to understand the implications of an enforceable undertaking.

Why? In our industry, demand still exceeds supply. Thanks to the superannuation guarantee, there is an additional \$46 billion of pension money tipping into our accounts every year, on top of the personal and business wealth our clients

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generate. This has resulted in the “client-squatter” type of planner who gets paid well for compliantly servicing fairly docile clients.

Creating value

We are in a phase where, once we get the client's money, we don't have to re-sell our services every year because we automatically get their renewals, fees, trails and commissions. But call it whatever you like, these terms still confuse our clients. Our industry's life cycle is in the phase where the price we charge for our advice isn't determined by the seller but by the product provider or manufacturer. We'll find the road to greater professionalism tough while we can't even determine the price of our advice. The product sellers among us don't see the problem, nor should they – yet. As products become inevitably commoditised, trails will diminish.

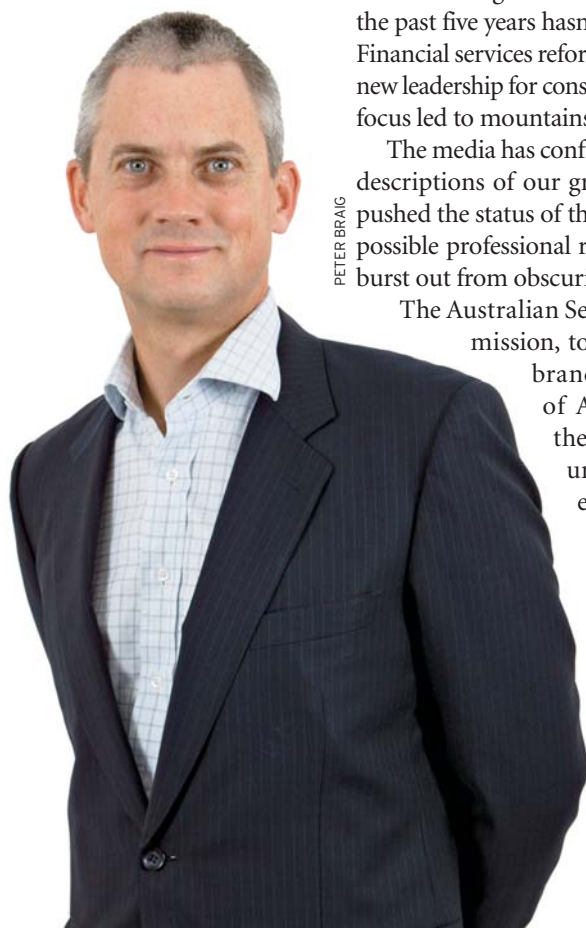
Financial planners rightly challenge me, saying they've heard these criticisms for ages, yet the valuations of planning client bases remain high and clients are still willing to pay commissions. So why hasn't change happened yet?

We haven't separated product cost from advice cost in a way that clients understand. Fat margins on products and platforms are hidden in weasel percentages that the majority of consumers don't understand.

But watch the Chapman review. The ramifications will be widespread. If we haven't stood up as leaders to outline the value we add, we won't have a sustainable business.

And then who will consumers turn to for help with decisions about money? Their accountants? That sector is already overworked and can't find new staff. It's up to us, the financial planners. These are the best of times to be leaders among our clients. ✪

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