



Up Close And Personal

Some of the drive for change in Australia's financial planning industry came from external forces, but the industry itself also saw the need for a new approach. The resulting professional and commercial practices, and trusted long term relationships with clients are now the envy of any accounting firm, says David Thomas

For eight years, from 1987 through 1995, I was a financial adviser in Hong Kong providing advice to expatriates of all nationalities on their offshore tax, investment and financial planning. The clients that were the hardest to advise were those with plans to move to Australia after Hong Kong, due to the complex nature of Australia's tax, social security and superannuation system. It always surprised and intrigued me that very few Australian financial planners had set up businesses in Asia to service the Australian expatriate and migrant population.

In 1995, I moved from Hong Kong to Sydney in the hope that I could persuade the Australian financial planning industry to look at opportunities in Hong Kong and Asia.

It has taken me some time to achieve this but I brought my first group of Australian based financial planners on a study tour to Hong Kong in May 2005. A more extensive program is planned to coincide with the Financial World Expo in Hong Kong in early October 2005. It is, therefore, an opportune time to reflect on the development of Australia's financial planning industry over the past 10 years.

When I came to Australia in 1995, the local financial planning industry was in a state of transition. Many advisers were moving their businesses from the traditional commission based, product centric sales model to a more transparent fee based approach where the interests of the client are always placed first. Over the past 10 years, regulation has forced all financial

intermediaries to adopt world's best practice when it comes to advising clients. This means that all of the following have to be fully declared and disclosed in writing to the client:

- The adviser's direct earnings (whether paid by the client or recommended product provider)
- Any indirect earnings (known as "soft" commissions e.g., conferences, gifts, offshore travel or services provided by third parties in return for new business)
- Any conflicts of interest (e.g., cross-ownership or interests in any product recommendations)
- All charges and costs associated with any recommended investment or product advice

It won't come as any surprise to hear that the process of implementing these regulations has not been easy, and

there has been much debate within the industry on many of the related issues, particularly in relation to commission disclosure. But strangely, many advisers would now say that they make more money, have much more enjoyment and have better relationships with their clients than they ever had before.

How has this happened? Why did the Australian financial planning industry undergo such radical and painful upheaval, and what can other countries learn from this experience? The answer lies under three headings.

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Regulation

There is no question that regulation played a major part in the transformation of the Australian financial planning industry in the 1990s and it could easily be argued that, without regulation, none of these dramatic changes could have ever taken place. In the early 1990s, there were too many sector-based regulators, different rules for different types of products, and inconsistency around disclosure rules. In 1996, The Wallis Committee (a committee established to review the market and to make recommendations for the future) concluded that similar products should be regulated consistently and outlined a new financial system based on the following principles:

- Consumers should be able to make confident and informed decisions
- Providers should be fair, honest and professional in all their dealings
- Markets should be fair, orderly and transparent

The Financial Services Reform Act (FSRA), which became fully effective in 2004, established a single licensing framework and has significantly raised:

- The licensing requirements: creating a high barrier to entry for financial planners
- Competency requirements: requiring advisers to demonstrate their knowledge and skills before being allowed to practise
- The definition of “appropriate advice”: ensuring that you know your client and ensure, at all times,

that the client’s interests are placed first

- The need for advisers to disclose everything that could influence their product recommendations and selections

As a result of this regulation, and the high level of standards that have been set, Australia’s financial planning industry is now regarded as a benchmark from which other countries can consider the reform of their own regulatory systems.

Consumerism

The introduction of compulsory superannuation in the 1990s and the increasing investment culture caused by the public floats of many of Australia’s leading blue chip companies (e.g., Commonwealth Bank, Qantas, Telstra, etc) has caused Australian consumers to demand higher levels of competency, consistency, professionalism and disclosure from its financial planning industry. With Australia’s complex tax,

social security and superannuation systems, and its rapidly ageing population, the demand for independent financial advice is increasing at a fast pace, and consumers have played an important role in ensuring that the financial planning industry can be trusted to deliver on its promise.

Professionalism

The financial planning industry in Australia, like many worldwide, has always aspired to becoming a “profession” so that it can be held in the same esteem as the legal and accounting professions. With the catalysts of regulation and increasing consumerism, the industry has now started to exhibit some of the key principles on which a new profession can be established:

- High barriers to entry via academic and/or professional qualifications
- Minimum levels of competency, and fit and proper criteria
- A commitment to serving the best interests of clients
- Fee based services, all fully disclosed and understood by the client
- Ongoing continuing education and professional development

Many financial planners in Australia run very professional and commercial practices, enjoy trusted long term relationships with their clients, and would be the envy of any legal or accounting firm. So, whilst some of the drive for change has come from external forces, the industry itself has seen the need for a new approach and, in many cases, has grasped the opportunity with both hands. Whilst many have found the process challenging and stressful, very few would prefer to go back to the way it was.

David Thomas is CEO of Think Global Consulting, a business that is committed to exporting Australia’s financial services expertise to other countries.