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Sent:	Thursday, 17 September 2009 10:06 AM
To:	corporations.joint@aph.gov.au
Cc:	bruce.baker@puzzlefinancialadvice.com.au
Subject:	Inquiry into Financial Products and Services in Australia - PJC Inquiry focuses planners to become product issuers
Attachments:	090914 IFA A Shift in the Great Debate - planners seek to become product issuers.PDF; Summary of submissions etc 090917 05.pdf; image001.png; image002.gif; image003.png

Dear Dr Batge
Committee Secretary, Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100 Parliament House
Canberra ACT 2600

17th September 2009

Dear Dr Batge

Re: Inquiry into Financial Products and Services in Australia

There is no point banning commissions if you don't also ban product manufacturers owning planners.

Financial planners see the writing on the wall to ban commissions and volume over-rides, so they now seek to "take the volume over-rides in another form" – by becoming product issuers. This is the subject of the attached September 14 2009 IFA article attached. This issue is also subject of the 10/Aug/2009 Money Management article below titled "Future for dealer groups is in products: PIS" Note: Storm Financial sought to maximize profit by becoming a product manufacturer (product issuer).

Moves by financial planners to become product manufacturers was inevitable if regulatory changes do not seek to stay ahead of the game. This is an the issue that I sought to flag in my supplementary submission 6 http://www.aph.gov.au/senate/committee/corporations_ctte/fps/submissions/supsub15g.pdf and my supplementary submission 3 http://www.aph.gov.au/senate/committee/corporations_ctte/fps/submissions/sub15c.pdf

My impression from the public statements, is that it is now well-understood that:

- Commissions can taint advice – and should be banned.
- Volume over-rides taint advice – because it is just commission by another name.

However, the degree to which product manufacturers owning financial planners can taint advice, has received insufficient scrutiny. I sought to give this some focus in my supplementary submission http://www.aph.gov.au/senate/committee/corporations_ctte/fps/submissions/supsub15i.pdf

As I have watched this debate & the inquiry this year, I have noted that some very positive developments have occurred so far.

However, I believe that there is no point banning commissions if you don't also ban product manufacturers owning planners.

> A fund manager owning planners is one of the biggest conflicts of interest of all. This is because the financial planning AFSL has a massive incentive to influence its advisors using carrot and stick – as can be seen from studies such as describe in the 4/8/09 Financial Review article "Liars need others to lie too". (http://www.aph.gov.au/senate/committee/corporations_ctte/fps/submissions/supsub15i.pdf) The key principle here is that to remove the conflicts of interests, consumer's need to be able to pay for advice clearly separated from their payment for funds management (i.e. Costs of advice must be clearly identifiable to the client and any financial benefits received by the financial planning AFSL that is in any way connected to that

advice must be clearly identifiable to the client) – and because of complexity of financial arrangements, the only way this can be achieved in a clear and transparent manner is to separate advice businesses from product manufacturing – i.e no organisation (or its associates) should be able to do both advise on financial products and manufacturer financial products. If product manufacturers are not prevented from owning financial planners, then consumers can never be sure whether the "owned-planner" are distributing a product (to earn management fees on the product) or providing advice in the client's best interest. I note the increasing agreement that disclosure DOES NOT remove this conflict or fix this problem. This ban needs to include:-

- banning white-labeling of products. White-labeling transforms a financial planning AFSL into a product manufacturer, with the same incentives (using carrot and stick) to influence their advisors.
- Banning financial planning AFSL's from creating their own products.

Note: Banning product manufacturers from owning financial planners will force product manufacturers to compete on price. It will also free the planners currently owned by product manufacturers to advise independently – thus increasing dramatically the consumer availability of independent advice.

I would also like to comment on some ridiculous claims that:

- If commissions and volume over-rides are banned AND
- If advisors must be required in the clients best interest THAT

thousands of financial planners will go broke, and that there will be very few financial planners available to service the needs of the community. I think I am simply stating the obvious when I say that if a financial planner is providing a valuable and cost-effective service to his clients THEN the advisor will be able to come to an appropriate win-win basis for ongoing advice to the client. This is the way it should be.

Yes, there may be some financial planners who are not providing cost-effective services to their clients – and maybe some of these might go out of business – but why should the community owe these providers a living?

Your Sincerely

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PS: In the article below Grahame Evans is defining their business purpose in life to be a product distributor – not to be a advice provider. This captures one of the great problems of the current financial planning industry – and that is that most large financial planning AFSLS are in the product distribution business rather than being in the advice business. Consumers need access to more financial planners who are in the advice business rather than in the product distribution business. I believe that consumers would be better off if there were less financial product distribution businesses – preferably none.

http://www.moneymanagement.com.au/Article/Future-for-dealer-groups-is-in-products-PIS/493712.aspx

Future for dealer groups is in products: PIS

10 August 2009 | by Lucinda Beaman

The managing director of Australia's largest financial planning dealer group, Professional Investment Services (PIS), has warned that without payments such as volume rebates, the majority of Australian dealer groups will not survive.

As a result, dealer groups must look to the provision of products for revenue in the future.

PIS managing director Grahame Evans said there had been a lack of analysis around the economic impact of the removal of commission payments at a licensee level, including the recently hotly debated 'volume rebates' paid by product providers to licensees whose representatives reach certain sales targets.

Evans said the removal of these payments could see many of Australia's largest dealer groups "disappear".

The only way to avoid this fate would be to restructure, Evans said, with dealer groups needing to either offer their own products internally or move under the ownership of an institution.

"From our perspective, while the dealer group may not make massive profits in the future, the overall operating group can still make profits, if it has products, just like a bank or a life company."

Evans believes the changes currently taking place in the profit arrangements of the financial planning industry will see "more people likely to be tied to an institutionally-owned dealer group, and therefore actually working within the confines of a fairly restricted APL [approved product list]".

"I can see that without [a dealer group being restructured to have] its own product, the largest dealer groups will actually disappear unless they're owned by institutions," Evans said.

"And then you move back to a smaller APL and one that is more likely to be tied in some way or another to the institutionally-owned platform or product base."

Evans argued that even many boutique dealer groups "do actually have their profitability driven partially by platform margins".

"Just like the banks or the life companies, if you're a big dealer group you've got to look to have product," Evans said.

While he said product margins for product sales must be kept separate from dealer group profits to avoid conflicts of interest, he did say APLs would be "substantially restricted".

PIS has a shareholding in Ventura Investment Management, which is the responsible entity for a series of Ventura and All Star funds.

The group has cuts its APL from 1,300 products in 2006 to around 530 today.

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http://www.moneymanagement.com.au/articles/Sales-targets-see-customers-in-more-debt-than-they-can-handle_z497184.htm

Sales targets see customers in more debt than they can handle

7 September 2009 | by Corrina Jack

Members of the Finance Sector Union (FSU) say the pressure to meet sales targets has them obliged to sell finance products to customers beyond the level of debt they can handle.

The national survey of more than 1,700 FSU members who are employees of banks, insurance companies, credit unions and superannuation funds showed that half the respondents feel obliged to sell products whether the customer needs them or not.

Fifty seven per cent of respondents admitted to feeling bullied by management about meeting targets while 63 per cent said they were fearful of losing their job if they did not meet their targets.

FSU national director, policy and communications, Rod Masson said the union has had many disputes with banks about unfair dismissals predicated on the basis of failure to meet targets, which must be met in order to receive pay increases let alone qualify for bonuses.

“The systematic bullying from managers undoubtedly makes our members feel conflicted in their roles,” Masson said.

Despite 60 per cent of members agreeing that sales targets were unreasonable and could not be met during ordinary work hours, the majority of members said they were given no opportunity to agree to the targets.

Almost two-thirds of workers say local factors like a community’s financial health are not considered when sales targets are set according to the survey.

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http://www.moneymanagement.com.au/Article/Sales-and-bonus-culture-directly-linked-to-collapse-of-Storm-FSU/497037.aspx

Sales and bonus culture directly linked to collapse of Storm: FSU

4 September 2009 | by Corrina Jack

The Finance Sector Union (FSU) has called for an end to the sales and bonus culture that it said was directly linked to the collapse of Storm Financial.

A hearing for the Parliamentary Inquiry into financial products and services held in Queensland was told the Commonwealth Bank ramped up sales targets, hoping to wring more and more business from Storm Financial, according to a FSU statement.

The inquiry heard that the Commonwealth Bank's sales targets for North Queensland soared by $180 million in 2008-09. Its target of $750 million in lending was equal to that of Brisbane, which had more than twice the number of lenders, the statement said.

The sales targets for North Queensland were imposed by the state manager in full knowledge of the business Storm was providing, FSU national secretary Leon Carter advised.

Carter believes the bank’s claims that the problems associated with Storm were isolated are clearly wrong.

He said it was not the fault of a few individuals working inside this sales culture, but the fault of organisations that deliberately create and reward such behaviour.

“What the inquiry heard this week completely undermines the bank’s claim that one or two rogue lenders caused this financial pain,” Carter said.

“The [Commonwealth Bank] and Storm seem to have been so busy creating and rewarding a culture of chasing sales volume they forgot their responsibilities to the people relying on them for professional advice – their customers."

Carter called for an end to the practice of approving high risk-loans or “loading Australians with more debt” in order to reach sales targets.

“If banks won’t end it voluntarily, governments must do it for them,” Carter said.