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SUBMISSION ON THE FINANCIAL SYSTEM INQUIRY'S FINAL REPORT

This submission directs comment to Chapter 4 of the report based on a belief that the notion that adviser objectivity will always be compromised within a system that pays commissions to the adviser or his/her company/employer on product adoption/uptake by a client.

No amount of adviser accreditation or education levels will overcome this inherent conflict-of-interest.

Although investors should take ultimately take responsibility for the risk profiles and investments they adopt, factors of knowledge, vulnerability or gullibility must be taken into account and addressed ethically and transparently by financial advisers.

Investor education

To the extent possible and reasonable within fee structures, advisers must ensure every effort is made to provide directly, or by reference, industry standard sources of education e.g. the ASX, and other forms of knowledge e.g. accredited courses, to generally educate investors. Evidence of such reference must be documented along with the risk profile assessment and specific investment advice.

There can be no enforceable obligation for the client to take up these education opportunities or for the adviser to be responsible for the clients use of them, merely that they be appraised of the existence of the information and its value in financial investment decision making.

There is NO place for *caveat emptor* in this process; it is too important to the financial wellbeing of individuals and to the future tax burden to government provision of welfare and pensions, to allow any profiteering from the position of trust vested in a financial advisor.

Fee for service only, no product commissions – who is paying for what?

It is implausible and nonsensical that a system which wholly or partially remunerates an adviser depending on the product choice a client is advised to make, can result in completely objective advice being provided by that adviser.

Such a system runs contrary to human instinct.

Qualified financial advisors must be solely remunerated on the basis of the services rendered in the same way a lawyer or accountant is remunerated. Any other sources of remuneration resulting directly from recommended product or service choices, in any form, from any source must be made illegal by legislation.

If advisors are to be provided with incentive bonuses, these should be on the basis of wealth creation for their clients, not themselves. Client satisfaction over time would be a good measure for bonus levels.

The overarching criticality of appropriately structured remuneration systems cannot be overstated; sound remuneration systems for financial advisors will be instrumental in the successful attainment of an ethical and sustainable financial services industry, which meets the needs of individual investors within an overall policy framework of national economic development.

Ethical standards and a professional code of conduct

Ethical standards and a professional code of conduct must be agreed to work alongside legislative provisions and compliance penalties, subjected to peer scrutiny within the industry and rigorous enforcement from an outside government agency which vociferously discourages transgression.

ASIC has clearly failed in the past in its duty over oversighting the financial services industry and should be closely scrutinised, be significantly restructured and it culture changed if it is to be entrusted with the responsibility of this role in the future.

Up front and Ongoing Charges

Where there are charges (not commissions) in relation to product uptake eg. Brokerage fee, administration etc, etc) this must be fully exposed by the advisor and clearly stated in PDS's in in specific advice documentation, as to the amounts, or where a %, must be accompanied by an estimate which, whilst not guaranteed, must, like a Realtors property valuation to a vendor, be within set parameters of reasonable expectation over the life of the charges being applied.

Client Risk Profile

Client risk profiles must be assessed through recorded enquiry and a comprehensive questionnaire that is understood by the client and the adviser and lodged with an independent third party. Client knowledge, vulnerability or gullibility must also be addressed by the advisor, having regard to, for example, the age, financial/economic understanding and experience/education of the client.

Assessment of an investors risk profile must be subjected to rigorous scrutiny and lodged with an independent body i.e. other than the adviser.

Independent lodging or escrow of risk profiles, assessment and advice provided is essential to avoid either party disclaiming the risk profile and/or advice that has been adopted in selecting products, nature, modes or spheres of investments.

Consumer education - If you don't understand it, don't do it!

Every effort should be made via industry bodies and government regulatory and oversight bodies to produce and disseminate understandable generalised advice and sources of information, knowledge and understanding to the investing public.

This would provide a fertile environment to compliment and provide background to the specific client advice and product choice from accredited advisers.

Sound financial advice and future government expenditure

Particularly in regard to Superannuation investments, either to funds or through SMSF's or where investments are clearly designed for the end purpose of a retirement nest egg, it ill behoves any government, and indeed is an abrogation government responsibility to future to taxpayers, if a system is not in place to protect the reasonable and prudent effort of people to remain as independent as possible from the public welfare system.

Failure to protect any investor from unscrupulous developers and vendors of unsound investment products is in the long term, likely to result in an added burden on the public funds.

Submitters Profile

Australian born, Semi-retired, 66yo, SMSF director/participant, tertiary educated, career background in government and private sectors. Experienced in the use of contemporary technology and the services of financial planners, accountants, tax & superannuation advisors.