

Devil in detail of fee cuts

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Proposed new rules to simplify financial advice might help to trim the back-office costs of planners, but there's no guarantee those savings will be passed on to consumers.

An alarming 40 per cent drop in the number of qualified financial advisers means it is now very much a seller's market, and with a low number of trainee advisers coming through it's likely to remain so for years.

The Treasury-led Quality of Advice Review has released a consultation paper in the lead-up to the final report, which is due in December. Possible changes include the ability for superannuation funds to pro-

vide personal financial advice, but that has drawn criticism from some sectors. Certified Independent Financial Advisers Association president Chris Young said the change could signal a return to the 1980s when tied life insurance agents began selling investments.

"You're not going to see someone who works for Hungry Jack's telling you that McDonald's makes a better burger. The same principle is likely to apply to a financial adviser who's employed by a particular super fund in giving you advice," Mr Young said.

But the proposed reduction in the amount of information provided to clients in written reports has been broadly wel-

comed. Financial disputes lawyer David Huggins said a Statement of Advice often ran to more than 50 pages, which was of little value to consumers.

"The SOA is meant to offer some layer of protection to consumers by detailing everything surrounding the financial advice recommendations," Mr Huggins said. "In fact, it has become a tool that is more likely to protect the adviser than the person it's intended for."

The SOA is a mandatory report that must accompany any financial advice provided by a licensed adviser. KPMG has previously identified that the total cost to produce such a document could be as high as \$5300.

What might be described as a

final clear-out of substandard advisers took place at the end of last month, with a requirement to de-list advisers who failed to pass a mandatory exam on ethics, financial advice law and financial plan construction.

The exam — combined with the implementation of recommendations from the 2017 Hayne royal commission into dodgy financial advice — has seen the number of advisers nearly halve from 28,000 in 2017 to just under 16,000 at the end of September.

The dwindling number of advisers, along with increased compliance costs, has caused fees for financial advice to skyrocket. A financial plan now costs upwards of \$3500.

Ongoing financial planning

services typically start at about \$5000 a year. That price puts it out of reach for many people in need of assistance, particularly when dealing with the complexities of retirement. The cost can be even more prohibitive when the fees are percentage-based and tied to the funds under management.

"It's not unusual to see one per cent of assets under management being charged by the adviser," Mr Young said.

CIFAA suggests clients negotiate a flat ongoing fee which operates independently of the amount of money invested.

Disclaimer: Nick Bruining is an independent financial adviser and a member of the CIFAA