



## Financial Advice Revolution

From July 1, 2012 there will be a ban on commissions paid by fund managers to financial advisors and on any other conflicted remuneration structures that financial advisers receive. This is aimed at further protecting investors, curbing conflicts of interest, lowering costs and improving transparency.

At the beginning of Part 7 of the Corporations Act 2001 it states that two of the objects of the chapter are to promote:

"confident and informed decision making by consumers of financial products and services while facilitating efficiency, flexibility and innovation in the provision of those products and services"

and,

"fairness, honesty and professionalism by those who provide financial services"

Given this I would have thought that a fiduciary duty existed, requiring advisors to act in the best interests of their clients and to put their clients' interests ahead of their own.

The fact that the government will make this fiduciary duty a statutory requirement makes it apparent that some need even further clarification on this point.

A separate inquiry, meanwhile, is seeking to simplify and make more efficient Australia's system of compulsory superannuation, or retirement savings. A preliminary proposal is for the creation of a single, low-cost, simplified and diversified investment strategy for the vast bulk of Australians who do not want to exercise choice in superannuation.

Taken together, the reforms are seen likely to strengthen advisory businesses that already employ fee-for-service models and which are not compromised by compensation provided by fund managers.

This is the model we use, and have always used, when providing financial advice.

In a commission based model, a product manufacturer pays commissions to an advisor (in reality, a facilitator), who in turn sells proprietary products to a customer. In the fee-for-service model, the pyramid is reversed so the advisor's interests are aligned with those of the client.

Only a fee-for-service model can truly give the confidence that financial advice is aimed squarely at helping you make wise financial decisions. There can be no possible perception that the adviser is having to "sell a product".

The other aspect of the reforms — creating a more efficient retirement savings system — further enforces the message that investors should focus more on things within their control, like keeping costs down and reducing taxes, and less about factors outside their control, like market volatility and media noise.

It truly is a revolution. And it has been a long time coming.