During the 1996 Federal Election the Coalition announced that it would legislate to allow employees to choose where their superannuation contributions were paid (choice of fund). The current choice of fund bill, Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002 is the third attempt to implement the 1996 election announcement.

The Australian Securities and Investments Commission (ASIC), in conjunction with the Australian Consumers Association (ACA) released the report *Survey on the quality of financial planning advice* in February 2003. It casts doubt on the financial planning industry's readiness for choice of fund with legislation currently stalled in the Senate.

### The Findings

Of the 124 plans reviewed, 61 (just under 50 per cent of the plans reviewed as part of the survey) received a score that classed the plans as OK, Good or Very Good. The average grade of the plans reviewed was 54 out of 100 – a borderline grade in the survey.

### Problems Identified by the Survey

Deficiencies in the way financial planners were providing advice to clients included:

- the failure of the financial plan to show how the recommended strategy was appropriate to the client
- plans were hard to read and used generic information
- recommendations for high fee investments did not explain why these were better
- recommendations to sell investments did not explain why alternatives were better
- no explanations as to why client requirements were ignored.

### Other concerns

A number of issues specific to parts of the financial planning industry also cast doubt on its preparedness for choice of fund.

The ratings of plans prepared by stockbrokers providing financial planning advice were below the average of the industry. The report observed the firms involved in the survey may need to consider whether they want to remain in the financial planning industry.

The survey observed that planners with higher qualifications were more likely to receive a higher score in the survey.

With 44 per cent of commission only planners receiving a poor or very poor grade, the judges were concerned that some planners who received commission only payments were not providing impartial advice.

There were concerns with the standard of quality control measures in financial planning companies. There was evidence that some companies had inadequate quality control measures in place, resulting in the overall quality of plans being highly variable.

While not all financial planners are members of the Financial Planning Association (FPA), members are required to follow its rules or they may face disciplinary action. Worryingly, the survey revealed that there was significant non-compliance by FPA members to its rules.

### Source:

ASIC *Survey on the quality of financial planning advice*, 2003
The Positives
Positive aspects identified in plans included dealing well with:

- summarising the client's current assets, investments and portfolio position
- restating client needs
- recommending investments with suitable liquidity and flexibility, and
- recommending a strategy and investments that suited the client's risk profile.

Choice of Fund
Since choice of fund was announced, improvements have been made to the proposal. However, within the superannuation industry there are still two areas of concern relating to the services provided by financial planners. Those are:

- the impact of choice on fees and charges, and
- the need to improve the consumer protection regime relating to the disclosure of fees and charges.

Response from the FPA
The FPA issued a response to the survey on 11 February 2003. It noted that it is not the regulator of the financial planning industry, and that not all financial planners are members of the FPA.

Its response stated that 70 per cent of the financial plans received a pass grade (i.e. a score of at least 50 out of 100), and that there had been an improvement in areas such as the disclosure of commissions. It noted that it has a comprehensive role in consumer education in the industry and that it has a strong National Quality Assessment Program.

Other Responses
Following the release of the survey, the Association of Superannuation Funds of Australia (ASFA) expressed its concerns regarding the community’s readiness for choice of fund. ASFA reiterated its call for improved disclosure of fees and charges and improved education as part of the roll out of choice.5

Other commentators called for choice of fund to be delayed until the issues concerning disclosure and consumer protection were resolved.

Comment
While the survey was conducted prior to the new FSR Act requirements becoming mandatory, the fact that fewer than half the plans reviewed, received a grade of OK or better, is a serious concern.

The FPA’s claim that 70 per cent of plans received a pass grade is misleading. Most consumers want more than middle of the road advice. They want high quality professional advice. Of the 21 plans that received a score of between 50 and 54, five received a poor grade because the planners did not provide an Advisory Service Guides.

While the ASIC and the ACA recognised that plans were judged on pre-FSR standards, they noted a large proportion of the plans would not comply with the FSR standards.

The superannuation industry now has over $500 billion in assets. Consumers should be able to expect from a financial planning industry that will greatly benefit from the move to the choice of fund regime, above average and impartially provide advice on financial matters.

While FSR licensing should remove incompetent planners from the industry, improvements are needed to ensure consumers are protected.

Method of payment and membership of the FPA are not a guarantee of impartial advice. Prohibiting commission payments and stating that consumers can educate themselves will not remedy the problems identified in the survey.

The Commonwealth Government will provide a consumer education campaign for choice of fund. However, the superannuation and financial planning industries will also need to develop an education campaign to ensure that fund members are ready for choice of fund when it begins.

Adherence to ethical behaviour, strong regulation by the ASIC, and a professional association setting and enforcing very high professional standards for its members, will improve the performance of the financial planning industry. An environment such as this will encourage the confidence needed for the introduction of personal choice of fund for superannuation contributions.

1 There were nine judges, five of whom were FPA members. They were a mix of practitioner and compliance experts.
2 The previous surveys were conducted by ACA in 1995 and the ACA and ASIC in 1998.
3 Planners are required to provide an ASG which provides key information on an adviser, including their services, background, method of payment and dispute resolution procedures.
4 No figures were provided in the report.
5 ‘Fin planner survey shows better disclosure and protection needed’, Media Release, Association of Superannuation Funds of Australia, 11 February 2003.

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