

## FoFA COUNTDOWN

Peter Kell puts financial planners on notice as deadline looms

PROFESSIONAL PLANNER

INSPIRING ADVICE

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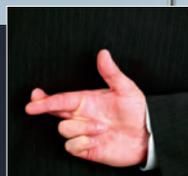
# FRIEND OR FOE?

Bill Danaher's members  
provide financial planning services  
to more than 6.8 million Australians



### IN FOCUS

AUSTRALIAN EQUITIES: A TIME TO  
BUY AND A TIME TO SELL



### THE PROFESSION

WHAT CAN BE LEARNED FROM  
THE TRULY PROFESSIONAL

In the middle of March, the chief executive of Industry Superannuation Network (ISN), David Whiteley, wrote an opinion piece in the *Herald Sun* explaining why the *Future of Financial Advice* (FoFA) reforms are good news for all consumers.

In the article, "Financial advice is not only for the rich", Whiteley gave the Financial Planning Association of Australia (FPA) a big pat on the back for its work in eliminating conflicts of interest. One of the key organisations to re-tweet Whiteley's column was...the FPA.

It never used to be like this. For years, industry superannuation funds and the financial planning industry presented themselves as mortal enemies, each implacably opposed to the philosophies and actions of the other.

But at some point in the recent past, all that changed. And at the inaugural Financial Advice in Super Symposium, in Melbourne in February this year, it became clear perhaps for the first time just how the lines of conflict between the two sides had not only become blurred but arguably had been erased.

The symposium was the brainchild of Bill Danaher, chief executive of Industry Fund Services (IFS), the entity that provides financial products and advice services to members of industry super funds. Danaher has been with IFS for about six months; previously, he worked at QInvest, the entity set up to deliver advice to members of the Queensland-based super fund QSuper.

(IFS and its sister entity Industry Super

Network are both subsidiaries of Industry Super Holdings (ISH), which also owns Industry Funds Management (IFM).)

Danaher says the February symposium was in part driven by the FoFA reforms, "which we're 100 per cent supportive of", and partly because there wasn't already a forum in which industry funds could actively discuss "what we're doing, in terms of developing our own advice models".

"But there was probably another even stronger element, and it was along the lines of the fact that there is a significant financial planning membership, if we can put it that way, within the profit-for-members sector of the industry," Danaher says.

"There really never has been a dedicated forum to discuss [issues] with like-minded people with like-minded values and objectives.

"It was driven by some issues we have, which are current issues; but it was also driven by the fact that there is a group that has very similar values and objectives, and so, as a consequence, isn't it a good idea that we pull everyone together and let us discuss issues that are topical amongst that group, rather than a broader industry representation across all sectors?"

Some issues discussed at the symposium were clearly industry-fund specific; others were generic to the financial planning industry. All of them provided a clear signal that in many respects the thinking and strategic insights of the leading industry funds are the equal of any financial planning organisation in the country.

# INDU BRE

A middle-aged man with grey hair, wearing a dark suit, white shirt, and patterned tie, is sitting at a white desk. He is smiling and looking towards the camera. Behind him is a large window with a view of a city skyline, including several tall buildings. The lighting is bright, suggesting daytime.

*Long perceived as being anti-advice, industry super funds' own financial planning operations are coming of age – and flexing their muscle. Simon Hoyle reports.*

# INDUSTRY FUNDS BREAK COVER

# Survey says...

## How many years has your fund offered financial planning services to members?

Major funds such as AustralianSuper, Cbus, HOSTPLUS, HESTA, and Health Super have been delivering financial advice to members over the past **10 to 15 years**. Funds such as First State Super and Australian Catholic Super and Retirement Fund have provided advice for the last **five to 10 years**.

## How many financial planners does your fund employ?

**Total financial planners: 213** (excluding AustralianSuper).

There are a variety of arrangements in place for providing advice services to members in terms of licensing and outsourcing of services. Most funds outsource some advice. This figure includes all advisers who are engaged to provide advice to fund members, including in-house and outsourced advisers, and face-to-face and phone-based advisers. In addition, AustralianSuper members have access to **200** accredited external planners.

## Does your fund intend to increase this number?

Most funds intend to increase planner numbers gradually over the next few years in accordance with demand. Major funds are intending to **double** or even **triple** planner numbers **over the next five years**.

## Do you encourage fund-employed financial planners to belong to an industry association?

Within industry super funds, most funds (who employ their own planners) and advice services used by funds encourage membership of the Financial Planning Association (FPA).

## Do you encourage fund-employed financial planners to achieve a professional designation?

Industry super funds seek to set high professional standards for their planning staff.

Across the board,

**50-75%**  
of planners hold a Certified Financial Planner (CFP) qualification and many are degree qualified.

At IndustryFund Financial Planning (IFFP)

**76%**  
of planners are degree qualified.

Most planners have a minimum qualification of at least diploma level. Some phone-based advisers (who provide general advice) have an associate diploma.

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## GRADUATED ADVICE

The planning structures employed by, for example, AustralianSuper are at least as elegant and intelligent a response to consumer needs and the demands of FoFA as any other institution's. It graduates its advice from "one-to-many" – the mass provision of largely factual and general information – at one end of the scale to "one-to-one" – fully-holistic, comprehensive advice – at the other. (See breakout.)

"It is challenging, in fairness to all participants, isn't it?"

Danaher says.

"But that's the main game. 'Scalable' doesn't describe it right, but a multi-channel integrated model is the endgame that everyone I am sure is pursuing.

"A lot of people look at it from a 'graduating' process. And it does work a lot that way. A lot of people will put their toe in the water in relation to a single issue, or even, what we'll see more of, self-help, online facilities.

## PROFESSIONALISM IS EMPLOYER-AGNOSTIC

The chief executive officer of the FPA, Mark Rantall, says that when it comes to highly qualified financial planning professionals – preferably those with the Certified Financial Planner (CFP) qualification – the FPA doesn't care where they work.

"We start with the premise that consumers need more advice, and they will get that advice from a number of different sources, including superannuation funds, banks and financial planners more broadly," Rantall says.

Rantall, who spoke at the Financial Advice in Super Symposium, says the FPA accepts that many consumers need only basic, general information about their financial affairs, and it supports the concept of scaled advice, but it also believes that at some point in their lives many of those same people will need more comprehensive, holistic advice.

"If that advice comes from a highly qualified Certified Financial Planner, all the better, because that at least is a quality overlay," he says.

"There are CFPs in all areas, including in super funds, banks and the self-employed channels.

"What is important is ensuring that the people giving advice are properly qualified to give that advice."

Rantall says the industry fund movement has employed financial planners "for a long period of time", even though it was true to say that it harboured considerable disquiet about the remuneration structures prevalent in the industry.

"With many of those issues now being removed, I'm not sure that their strategies have changed so much, in terms of employing financial planners or outsourcing to [external organisations]; but I think there's more confidence in outsourcing to external groups," Rantall says.

"The important thing is, in whatever quarter financial planners are being recruited, that standards are high and these groups should be seeking out CFPs.

"Many of the industry super funds have the CFP as a standard."

Rantall says financial planners outside industry funds should not view the rise of industry fund-based planning as a threat. He says that with only one in five Australians currently using the services of financial planners, "there is just so much growth potential in the market, and so many people whose needs are not being met by a qualified financial planner".

"It would be great to see that number move up to something like three in five," he says.



*After 1 JULY 2013*  
**THERE** *will be*  
*two* **KINDS OF**  
**FINANCIAL** *planners.*

## **WHICH KIND WILL YOU BE?**

The future of financial planning is clear – there will be professional practitioners and the rest. The professionals will be distinguished by adherence to FPA's Code of Professional Practice and by putting the client's interests first. They'll belong to a recognised professional body – the Financial Planning Association.

From 1 July 2013, you'll need an approved degree to become a member. If you don't have one, this is your last chance to join the ranks of professionals.

**Don't miss the cut-off date – to join the FPA, call 1300 337 301 or visit [fpabestpractice.com.au](http://fpabestpractice.com.au)**



FINANCIAL PLANNING  
ASSOCIATION *of* AUSTRALIA

## In 2012, approximately how many members received advice from fund-employed financial planners?

**General – more than 93,000** general advice conversations delivered. (General advice figures only include general advice provided by an adviser. The funds deliver much more general advice through other channels (that is, web calculators and educational materials, workplace field staff) but this is not reflected in these figures.)

**Personal – more than 32,000** statements of advice delivered. This includes both fund-employed and outsourced financial advice.

## Does your fund have referral arrangements with external financial planning firms (including IFFP) – and if so, who?

Some funds have their own internal financial planning teams while others outsource either some or all of their financial planning functions to external firms such as IFFP or Superpartners. AustralianSuper also has arrangements with accredited financial planners over and above these arrangements.

## How are financial planning fees calculated?

Members of industry super funds can receive general and/or limited advice (intra-fund advice which is generally provided over the phone) as part of their membership.

Comprehensive or more complex financial advice (delivered face-to-face) is usually provided on a fee-for-service basis and, after the introduction of Stronger Super, will definitely need to be charged to the member. This may be charged as an hourly fee or a service fee, according to the scope of advice required. None of the funds charge commissions or asset-based fees.

## Is your fund public-offer?

Yes, all of the funds are public-offer.

### LIST OF RESPONDENTS

Australian Catholic Superannuation and Retirement Fund	First State Super (Health Super Financial Services)	LUCRF Super Superpartners
AustralianSuper	HESTA	Sunsuper
Cbus	HOSTPLUS	TWU Super
	Industry Fund Financial Planning	

Total number of members:

**6.8 million**

Total funds under management:

**\$177 billion**

Note: Industry Fund Financial Planning and Superpartners are not superannuation funds but provide an outsourced external financial advice service. Source: ISN, superannuation funds responding to *Professional Planner* questionnaire.

"I think that's just such a positive for the Australian community, frankly, and also for the industry, because it allows people to get into what is seen as for some people, 'What is financial planning? I don't really need it; I don't have enough money'. All those sorts of things that you would have heard many times.

"But it allows them to get in at a lower level, and then graduate up through the process.

"But what I've found is that people will go through that graduated process, online, simple advice, intra-fund advice and then to some kind of limited comprehensive, then to comprehensive, and then to holistic, if they have the need.

"But the point I'm trying to get to is I think it's much more dynamic than that. People will come from the more piecemeal levels of advice, and move to comprehensive, but then they'll actually go back to the more piecemeal when they want to alter their portfolio in a manner. So they move between them.

"I think that, in terms of being able to say to a consumer of advice, you have this choice, and depending upon your circumstances and what stage of life you're in, we can deliver it as comprehensive or as simple as you want, and we'll understand the data behind that. I presume that's what everyone is endeavouring to pursue."

“PEOPLE WILL COME FROM THE MORE PIECEMEAL LEVELS OF ADVICE, AND MOVE TO COMPREHENSIVE, BUT THEN THEY'LL ACTUALLY GO BACK

### BUSINESS AS USUAL

Danaher says that industry funds will continue to develop financial planning services tailored to their respective fund memberships, but with renewed confidence under the FoFA regime.

And even though the industry funds' conflicted remuneration "advantage" has been removed, he says there are still differences with commercial counterparts that industry funds can continue to exploit successfully.

"We believe that what we've been doing for some time, in an environment that has been commission-free, does align with what the intention of FoFA is, if I look at one aspect of it, for example," he says.

"Our focus has been and always will be on member best interests, and I suppose if you're looking at fundamental differences in philosophy – one is member value, [the other is] shareholder value – then there are significant differences between the two.

"That will be evident even in the culture of an organisation, down to even the terms and conditions that people are employed under.

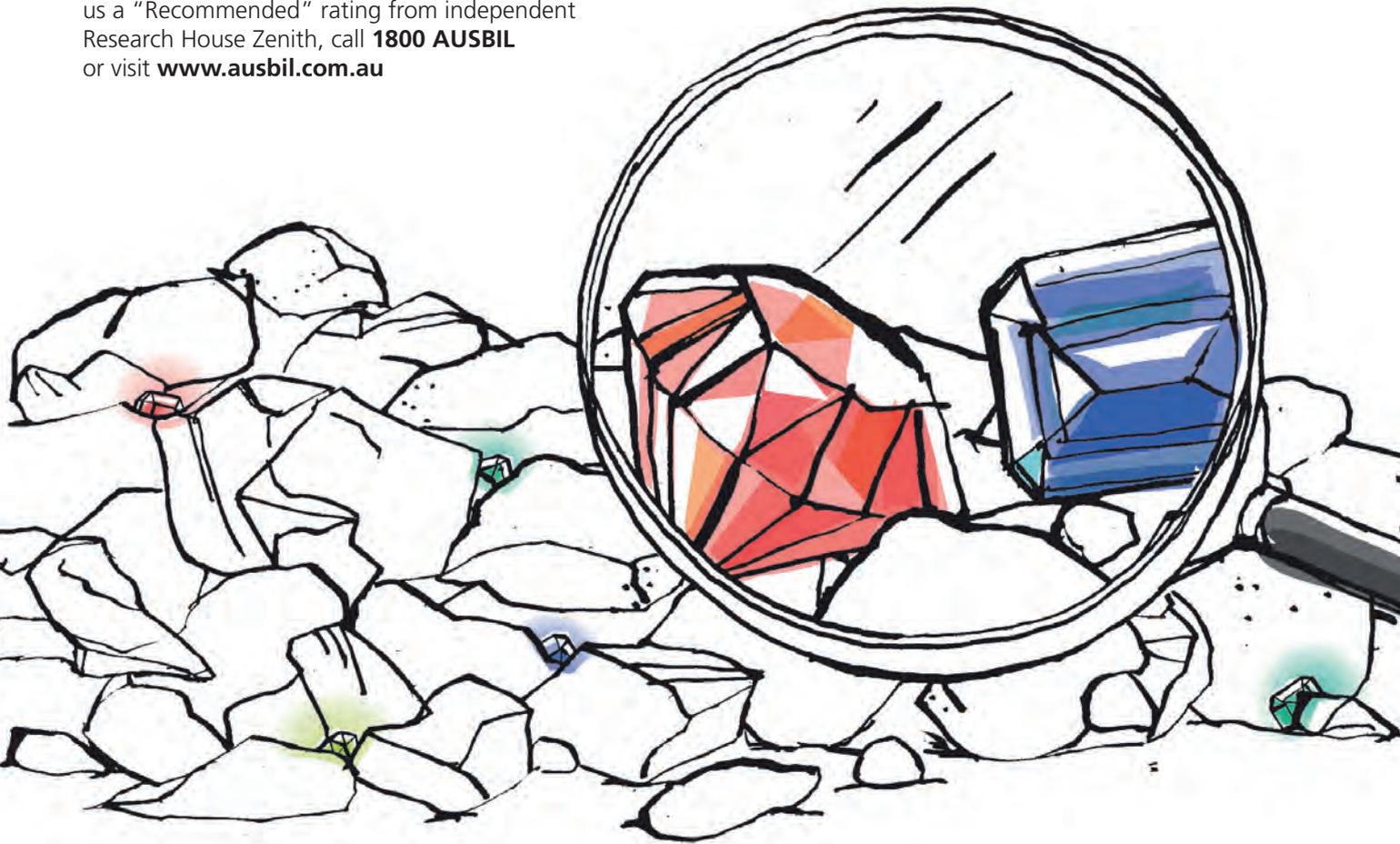
"[When it comes to] people within this sector, in the time I've actually worked here, it is evident that there is only one focus, and the trustees of the superannuation funds expect that quality advice will always be given, and definitely always in the members' best interests, as the ultimate goal.

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## “IS THE EMPHASIS THE SAME IN AN ORGANISATION THAT'S ABOUT MAXIMISING SHAREHOLDER VALUE? [THAT QUESTION] HIGHLIGHTS SOME OF THE DIFFERENCES BETWEEN THE TWO SECTORS

### A SHARED OBJECTIVE OF PROFESSIONALISM

In many respects, the objectives of industry funds are closely aligned with a profession striving for greater respect and status – namely, ensuring that the people who hold themselves out to be financial planners are properly and objectively qualified to do so.

David Whiteley, chief executive of Industry Super Network (ISN), says the industry fund movement has waged “a 25-year-long campaign seeking to ban sales commissions and other forms of conflicted remuneration”.

“We have had for some time, with Mark and with his predecessors, contact with the Financial Planning Association and what occurred over time were, I think, two things.

“In the first instance, [there was] a bit of a realisation that the kind of advice we believe many, many Australians need – and many of our members need – is simple, straightforward advice, often on a single issue.

“Quite often when we spoke to financial planners, they tended to be talking about the more holistic services – in fact typically, exclusively holistic services.

“So we were talking about two different groups of people and the kinds of advice they needed.

“And the second point was we realised that the FPA in particular had an agenda about achieving professionalism that was not at all inconsistent with what industry funds were seeking to achieve. So you had shared objectives; you just had different opinions on what was necessary to get there.

“And that most particularly came down to opt in. If you go back a year now, it was around the opt-in issue, with a view from industry super funds and ISN that it was a necessary part of the legislation to provide consumer protection and change behaviour; with the FPA taking the view that a financial planning professional would not charge a client for services that weren't being received.

“Or to put it another way, that the cultural change would be achieved within the profession without legislation being required.”

Whiteley says that industry funds' financial planning capabilities have not been created in a vacuum.

“Financial planners who work for industry super funds have typically worked at another financial planning business or as a financial planner elsewhere,” he says.

“These are people who want to be a member of their professional association; they have selected the FPA for that. And with regard to the CFP, these are also people who want to achieve the highest accreditation and qualification, and within that particular industry it's the CFP.

“And I think also that my experience talking to a lot of the financial planners who work for Industry Fund Financial Planning [IFFP], and also [directly] for industry super funds, is that many of them were attracted to the proposition that industry super funds offered – which was that financial advice would be on a strictly fee-for-service basis.

“So I think there was a fair degree of self-selection of planners attracted by the ethos of industry super funds, wanting to offer people financial planning advice within that environment. And of course who are highly qualified, highly professional individuals who wanted the CFP or who had already attained the CFP.”

“Is the emphasis the same in an organisation that's about maximising shareholder value? [That question] highlights some of the differences between the two sectors.

“I would not want to be misunderstood – I have worked in that sector and there are some wonderful people who are definitely endeavouring to be professional and provide good service – but there is a fundamental difference in the fabric of the culture of the two sectors and the fabric of the organisations that make up both those sectors.”

Danaher likens the differentiation of industry fund planners from their broader-industry counterparts to the so-called “cola wars” between Coca-Cola and Pepsi.

“They're both colas...and they both look the same and they taste the same and they cost the same; but they do appeal to different segments and they do that quite well,” Danaher says.

“It's about us being able to find points of differentiation going forward. That will be about the quality of advice that is provided – and how effective that is will play a big part in being able to develop new points of differentiation to build competitive advantage.”

### WHY OFFER ADVICE?

Danaher says there is a range of reasons why industry funds want to provide financial planning services to members. One reason is it's simply an extension of the “members' interests first” ethos; the second is for strategic reasons linked to retaining members who might otherwise be lost to the funds.

“First of all, in terms of why a superannuation fund looks to financial advice, it is genuinely to make sure the member receives good quality advice, and therefore it's in the member's best interests,” he says.

“I think that's first and foremost why a superannuation fund will go about developing a financial planning operation.

“In relation to retention, which is really the point you've raised, it would be certainly part of the strategy, but it would still be secondary, I suspect, to simply looking after members' best interests.

“It is evident from statistics that are available, that there are dollars that go out particularly from the accumulation [phase] to drawdown [phase]; clearly that's where the asset values are significant and it's probably an area [where] we are working closely with the funds to make sure we have in place appropriate solutions to just make sure members are informed.

“That's really what it's about. If they make informed decisions and they still make a decision to possibly move their assets out of the superannuation fund then OK, that's it, that's their decision and we respect that. But is there enough in place in terms of allowing people to make that informed decision? That's something we continue to work closely with the funds on.”

Danaher says funds are tackling the provision of advice in a number of different ways.

“Traditionally it has been the case that with the funds that IFS has dealt with – through the vehicle which is called Industry Fund Financial Planning [IFFP] – [planners] have been employed by IFS and then 'embedded' within the funds,” Danaher says.



“IF IT MEANS WE CAUSE A BIT OF PAIN FROM A COMPETITIVE PERSPECTIVE, THAT'S NOT SO MUCH THE PURSUIT BUT IN SOME RESPECTS IS AN ENDORSEMENT

“Then they will work within the funds – I mean literally, in their premises – and provide financial planning services to fund members, but they are employed by IFS.

“In more recent times we're seeing a shift where some of the funds are looking

to take greater ownership in the financial planning services, and as a consequence will look to actually employ the financial planner themselves, but they will continue to operate under our licence, so they're authorised reps. That's the emerging model,

and we will work with funds that have a desire to pursue that to support them as we can.

“That's not a new model. It's been around for many years, of course, but in this industry it is [new], as the funds feel it forms part of their strategic objectives.”

Danaher says an emerging model is for funds to outsource advice to external, existing financial planning licensees. That's not a model that IFS works directly with funds on.

Danaher says industry funds have always been driven by what they perceive is best for members, and not by an explicit desire to compete with the broader financial planning industry.

“If it means that over a period of time consumers of advice decide they are better served and feel more comfortable with dealing with our financial planners, then clearly I would be delighted with that – that would demonstrate to me that we're setting a high standard, and our objective is first and foremost to make sure we do the right thing for members, in terms of what is in their best interest.

“As a consequence of that, if it means we cause a bit of pain from a competitive perspective, that's not so much the pursuit but in some respects is an endorsement of the values and the standards that we place in our business to provide good-quality advice.” ■

## FLEXIBILITY THE KEY TO A FULL ADVICE OFFERING

Louise du-Pre-Alba, head of policy and public affairs for AustralianSuper, says the challenge for a big super fund is to find a way of delivering advice that is both flexible and compliant, so that irrespective of how a member first comes into contact with a fund, they can get what they need – or be referred to somewhere they can get it.

“Our focus in developing our advice offering is to make sure we develop an advice offering that's built for our members; it's not built to fit in with a particular business model that already exists somewhere in the industry – it's actually built for our members, and that's our first priority,” du-Pre-Alba told the Financial Advice in Super Symposium in Melbourne in February.

“Firstly, they're channel-agnostic – some would say adviser-agnostic. I would put it this way. It goes back to the *Financial Services Reform Act* [FSR], before FoFA.

“In a nutshell, the financial services reforms were about, it's not...who you are, it's...what you do.

“So that means if you provide personal financial advice, you need a licence, whether or not you're a super fund [or] a financial planner, an administrator or a call centre. It's the same level playing field for all.

“We provide phone-based advice, and we think that will provide members with

general factual information, general advice and sometimes personal advice.

“Employers would provide factual information and general advice; on our website we provide online tools – we have personal advice capacity, and we also provide general advice and factual information online.

“We use Industry Fund Financial Planning as a partner that provides personal advice, general advice and sometimes factual information for AustralianSuper members.

“We also have a group of accredited advisers through a panel of dealer groups that we have been using, and through that association we now have around 200 accredited individual advisers who work with AustralianSuper.

“There's a number of ways we provide advice, through a number of channels, and you can see on the upper part [of the advice spectrum] we're talking about low-complexity factual information; and at the lower part [we're talking about] high-complexity [advice] – and that's where personal advice is.”

Du-Pre-Alba says flexibility is critical, because if a member enters the advice matrix at a point designed to deal with a certain level of advice, but wants to talk about something at a higher level, “they don't expect that conversation to stop where you think it should stop because of structural reasons”.