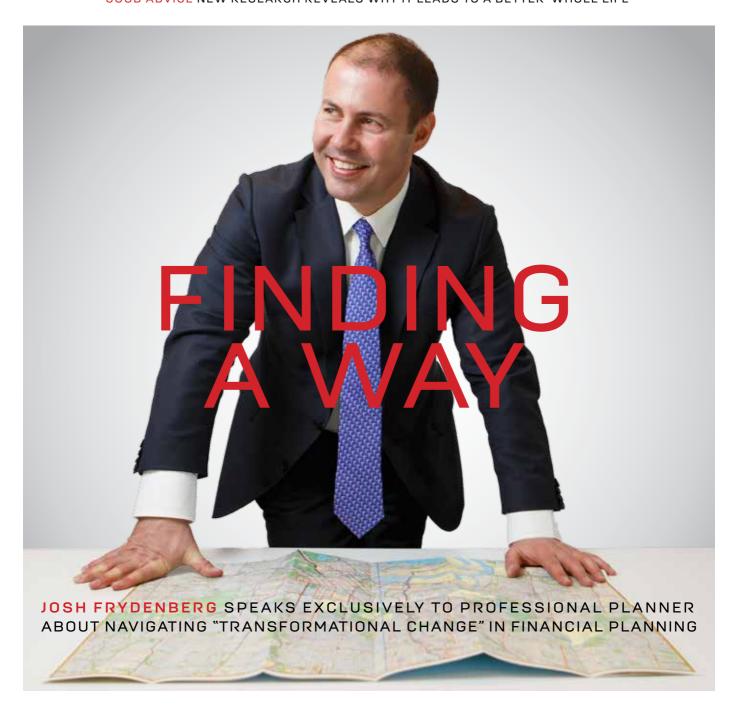
Professional Planner

2015 DEALER GROUP SUMMIT LICENSEES AND DEALER GROUPS FACE UP TO CHANGE INTERVIEW TIM MACKAY ON REDESIGNING A BUSINESS TO MOVE WITH THE TIMES

COUNTDOWN REMOVING THE FINAL ROADBLOCKS TO ACCOUNTANT LICENSING SOLUTIONS

GOOD ADVICE NEW RESEARCH REVEALS WHY IT LEADS TO A BETTER 'WHOLE LIFE'



WORDS SIMON HOYLE PHOTOS MATT FATCHES

FINDING





n March this year the Assistant Treasurer Josh Frydenberg hosted a roundtable to thrash out the issue of "consumer outcomes" arising from the multiple and overlapping regulatory reviews of financial planning currently underway.

On the one hand, Frydenberg managed to get together 20 different and disparate groups to discuss the issue – a triumph of the consultative process. On the other hand, however, Frydenberg had to get 20 different groups together to discuss just the consumer-outcomes aspects of reform. That, surely, must make the process more complicated than it could be.

"But there are lots of different interests," Frydenberg says.

"There were people representing superannuation trustees. There were people who had an academic focus. There were people from the FPA [Financial Planning Association], people from the FSC [Financial Services Council], people who were from CHOICE and other consumer groups. And then there was the ABA [Australian Bankers' Association] and the like. And we had industry super. So you had a great cross-section of representatives, all of whom have a legitimate voice and a legitimate stake in the outcome. So it's good to share a table with them.

"I think the relationship has been very positive, and the fact that we could get a round table with more than 20 different groups represented for a couple of hours to have a discussion about the future of the financial planning industry was a sign of positive engagement."





CLEARLY, WE
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Frydenberg is consulting with the industry on at least three specific fronts: the Financial System Inquiry (FSI); the Parliamentary Joint Committee on Corporations and Financial Services' recommendations on lifting the professional, ethical and education standards of financial planners; and the Review of Retail Life Insurance Advice – the so-called Trowbridge report.

He says he wants to conclude consultation with the industry and put forward a regulatory roadmap that represents a pragmatic and workable compromise for both practitioners and consumers.

His message to the broader industry is direct: not everyone is going to get everything they want; the industry needs to accept some compromises; and it needs to be prepared to work with government to implement changes he says will be transformational for the sector. And that includes the banks.

"I have welcomed the banks' unilateral actions – they themselves have elected to raise the standards within their own operations, and that's to be welcomed," Frydenberg says.

"But the banks, like all the other players, need to buy in to our final model, once released."

WALK OF HEROES

When Frydenberg shows *Professional Planner* into his office in Parliament House in Canberra he gestures to a collection of framed photographs on the wall. "These are my heroes," he says.

The first image to catch the eye is former US President Abraham Lincoln; but other images include former US President Ronald Reagan and former UK Prime Minister Margaret Thatcher walking together, apparently deep in conversation.

There's Franklin Roosevelt, Lyndon Johnson, Harry Truman, and John F Kennedy – each photo with an inscription to the former Australian Prime Minister Sir Robert Menzies. Frydenberg represents Menzies' eastern suburbs electorate of Kooyong in Melbourne.

Mid-way through the interview, Frydenberg is called into the House of Representatives to vote on a social security bill – interruptions like this are a hazard of scheduling an interview when parliament is sitting. He leaves the office still speaking about the misalignment of the interests of insurance advisers and consumers and the resultant propensity for churning; he re-enters the room about a quarter of an hour later, seamlessly continuing that same





thought. The ability to switch quickly between often-unrelated issues is a prerequisite to handling the demands of the job effectively.

"Clearly, we want this to be a partnership between government and industry," he says. "We can set the requirements, and the financial planners and industry need to live up to them. My message to them is that this is a win-win situation: it's a win for consumers, because they get a higher level of qualifications, professionalism and education in the sector; and it's a win for the financial planners themselves, because it will create a more sustainable business model, greater consumer confidence in the services they offer, and put behind the industry some of the recent product and advice failures."

DIRECT MESSAGE TO FINANCIAL PLANNERS

Frydenberg's message to individual financial planners is likewise direct: "I want them to embrace change."

"The first point is, I am grateful to the industry for the constructive role it has played," he says.

"We've gone through a very consultative process, which is now coming to an end. We have been successful to date in getting bipartisan support, and when we come up with a final model, I would hope that all the different players can embrace this change, even if they don't get everything they want.

"And the reason being is we're all there for the same reason, which is to create better consumer outcomes, to maximise consumer outcomes, and to create a sustainable and viable industry. That's what we want."

Frydenberg says he is conscious that regulation needs to strike a balance between appropriate consumer safeguards and not being restrictive on business – particularly small business, arguably the Liberal Party's natural constituency.

"Having been the former
Parliamentary Secretary to the
Prime Minister in charge of the
government's red-tape-reduction
program, I understand the
imperative of reducing compliance,"
Frydenberg says.

"And that's why we opposed some of the then-Labor government's FoFA [Future of Financial Advice] reforms. At the same time, regulation can play an important role in ensuring effective consumer protections. So what we want is better regulation as opposed to no regulation. We want better regulation, and that's what we're on about."

RESPECT FOR PRACTITIONERS

Frydenberg says the reforms the government will ultimately put forward will be underpinned by respect for financial planning practitioners and the role they play.

"I really respect people in the financial planning industry," he says. "They make an important contribution to dealing with people's life savings, and we need to get more people taking up financial advice, more people seeking affordable and accessible advice. And at the same time we've got to deal with some of the product and advice failures, and strengthening the system so it's more robust and sustainable going forward.

"But we are going to undertake transformational change."

Keeping track of many moving parts is integral to being able to reach a workable consensus on the issues that the financial planning industry currently faces.

Consensus is important to Frydenberg
– it may yet come to be regarded as a
defining characteristic of his tenure as
Assistant Treasurer, and it's one that
leaders and representatives of the financial
planning industry say they value.

"We've had a very constructive and valuable dialogue with those industry bodies to date, and what I've appreciated is their public tone, which has been one of partnership as opposed to adversarial confrontation," Frydenberg says.



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AND THE ASPECTS OF THAT REPORT THAT I AM STRONGLY ATTRACTED TO INCLUDE HAVING AN ENTRANCE EXAM AND AN ONGOING PROFESSIONAL YEAR

"That's always very important. A lot of them commission reports, like Trowbridge, or commission research into superannuation and other areas, which provide valuable sources of information for the government, in addition to what we rely on from Treasury and other government agencies."

CONSULTATION MEANS CREDIBILITY

Frydenberg says the need to consult so widely doesn't make the process more protracted than it needs to be.

"I'd say it makes the process more credible," he says.

"I've found it quite engaging, and moving at a fair pace. What we're talking about here is transformational change – a really significant change in the industry's approach to educational, professional and ethical standards."

Looking past whatever transition periods may be appropriate after the government sets out its reform roadmap, Frydenberg says he would "love to see a prosperous financial services sector where both the big and the small players efficiently and effectively operate; one where consumers are satisfied with the high quality of advice that they are given, and where advice and product failures are at a minimum".

"That's where I'd like to end up," he says.

"My background, having been a director of an investment bank - Deutsche Bank - and I did my articles at Mallesons, and I represent the Liberal Party, which is a party that understands the value of free enterprise and the importance of business and job creation, [means] I will do everything I can to ensure that we have a competitive environment, which meets those two compatible objectives: maximising consumer outcomes, and creating a viable and sustainable financial services industry. A viable, sustainable and high-quality financial services industry."

SUPPORT FROM BOTH SIDES

Frydenberg says it is both important and heartening that reform of the financial planning industry has bipartisan political support.

That was reflected in the release of the PJC's report on lifting professional, ethical and education standards, chaired by South Australian Liberal Senator David Fawcett. There were no dissenting voices on the committee, which can't always be said of such inquiries.

As a result, Frydenberg has been delivered a document that he says is "more than a useful guide; it's a roadmap".

"And the aspects of that report that I am strongly attracted to include having an entrance exam and an ongoing professional year – when people go into the sector they have a supervised year, where they're getting senior people assisting them to make the transition into the sector; there's the higher qualifications, higher tertiary qualifications; a code of ethics, greater membership of professional organisations," he says.



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I AM VERY CONFIDENT

THAT WE WILL GET AN

SUPPORTED OUTCOME.

SUPPORTED OUTCOME

AGREED INDUSTRY-

AND A BIPARTISAN

POLITICALLY-

"They're all very attractive and we'll respond formally to the FSI on each of those points. But if we could institute those sorts of formal mechanisms and changes I think it would lead to better consumer outcomes.

"And we do need proper transitional outcomes as well. The average age of a financial planner is 55, and I am very conscious of the fact that you need to make allowances for people who are already in the system."

Frydenberg acknowledges that for a certain cohort of financial planners, the prospect of re-engineering a business or overhauling how they work is either

unattractive or unachievable.

"We've got to be very conscious of those structural challenges," he says.

"We've been working very closely with the industry bodies, whether it's the FPA or FSC

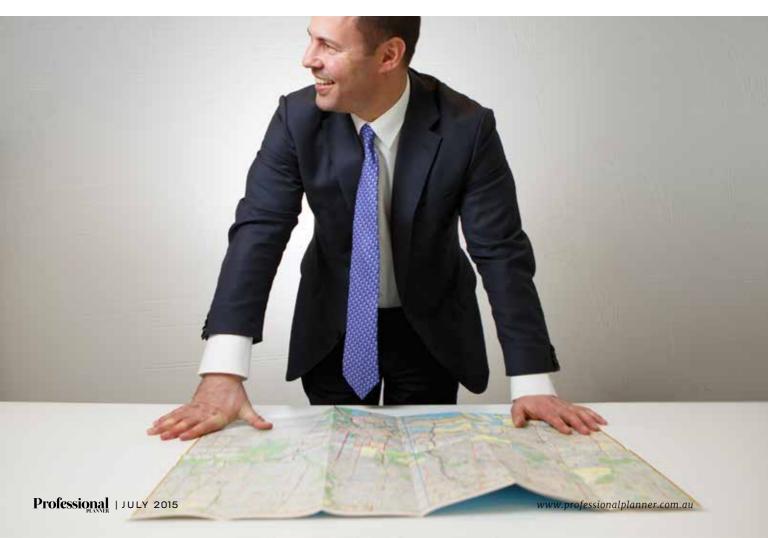
or CHOICE and other consumer groups. We had a round table and Greg Medcraft, head of ASIC, was there, and a senior Treasury officer. It was a good couple of hours and I sat in there for the meeting, going through all the key aspects. And my message to them all, after talking about how each of those issues would work, was [that] not everyone in this room will get everything that they want.

"There needs to be a bit of give and take because at the end of the day what we all want is better consumer outcomes, because that creates a more viable and sustainable industry. If we can therefore reach some sort of consensus-based outcome, where there is a bit of give and take, that's where we want to end up."

Frydenberg professes himself "very optimistic" that he can get the result he wants.

"By and large, on this one, they're coming to the same place," he says.

"I am very confident that we will get



an agreed industry-supported outcome, and a bipartisan politically-supported outcome.

TRACKING AHEAD ON TROWBRIDGE

"It should be an industry-led response, and they have weeks, not months. Essentially, we needed an industry position agreed before we formally respond to the FSI. Otherwise we have the option available to us of legislation.

"There have been three key reports here: there's been the ASIC report, which indicated high levels of non-compliance and highlighted the misalignment of the interests between advisers and consumers when it came to the issue of high upfront commission, because there was the incentive to churn. Then there was the FSI report. Then there was...I'll be back."

He departs to vote on the social security bill, and returns 17 minutes later.

"OK. Trowbridge," he says.

"Commissioned by industry, with some good suggestions in it. My preference has

been for the industry to come up with their solution. Of course we'd like to move away from upfront commission, but I'm also conscious that for some of the smaller players, some of the independent practices with financial

planners selling life insurance products, having some sort of upfront fee can help the viability of their business, whereas some of the bigger players, without upfront fees, can crosssubsidise their sales force.

"So it's about getting, again, the balance right; but certainly I have welcomed moves by a number of industry players to significantly reduce the upfront commission. But we're not yet at the point where I can say to the industry, 'you've gone as far as you need to', and we're having ongoing discussions with them." \blacksquare

WHAT WE ALL WANT IS BETTER CONSUMER **OUTCOMES, BECAUSE** THAT CREATES



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