



BLENDING THE FIVE KEY THEMES OF
DEALER GROUP SUMMIT INTO A LOOK
AT THE FUTURE OF THE PROFESSION

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More than 40 leaders of financial planning licensees came together at the 2016 Professional Planner Dealer Group Summit to examine five key issues facing financial planning as it evolves into a profession. Topics ranged from the quality of advice

to the industry's efforts to reach more than one in five adult Australians; and from proposed education and professional standards to the pros and cons of vertical integration.

Participants assessed how the topics related to consumer confidence, sustainability of financial planning practices, risk of further government

intervention, and the outlook for licensees themselves.

Conducted under the Chatham House Rule, the discussion was open and direct.

"It's definitely a very different conversation to be able to sit in the room with direct competitors and talk about improving the nature of what we do," said one participant. "It's really unique."

PART ONE EDUCATION STANDARDS

COLLECTIVELY RAISING THE BAR

IT'S NO GOOD RELYING ON THE GOVERNMENT TO IMPROVE EDUCATIONAL STANDARDS FOR PLANNERS. THE INDUSTRY NEEDS TO WORK TOGETHER TO IMPROVE THINGS FROM WITHIN.

Education standards and professionalism are fundamentally linked, and the 2016 Dealer Group Summit heard that higher standards are “one of the fundamental tenets of us moving from this into a profession”.

However, Discussion Group One said a problem for the emerging profession is that direction on standards has largely been set by government, rather than from within.

“There was a sense that the messages that have come out from the government undermine our ability to convince consumers in the value of advice, so it just reinforces the nature of the way those messages land and [what] it looks like,” the group said.

It said the message to the public on standards has been compromised by the industry’s inability to speak with a single voice. Government-enforced standards are aimed at the lowest common denominator and “it doesn’t really matter at the end of the day, what we individually do, it’s going to matter what we collectively do”.

“[While] we’ve got people who are part of the industry who choose not to participate in that journey of profession, in particular around education standards, none of us will get there,” the group said.

“It only takes one, as you all well know, to undermine the work of a lot of others.”

Group One said that in terms of raising standards to a professional level “a degree qualification [on its own] is not going to cut it”.

“It’s one important part of a pretty complicated ecosystem,” the group said.

“If we’re not moving fast and independently towards those sorts of objectives, the government won’t get us there anyway, because they’re only

going to set the minimum benchmark at the compliance level, not the aspirational objective.

‘SINGLE VOICE’ REQUIRED FOR EDUCATION STANDARDS

“Again, creating a profession is not what the government is trying to do; that’s what we’re trying to do. That was quite an insightful reflection around not losing sight of what’s the cart and what’s the horse in this instance.”

Group One delivered three calls to action.

“The first is that we need a single voice around education standards, to be crystal clear on what’s important, and in particular to make sure we’re understanding that the details and the ins and outs of what’s been proposed – even things like the makeup of the body that’s going to determine which professions do and don’t,” it said.

Its second call was for individuals in the financial planning industry to be cognisant of what others around them are doing, and to encourage them to move if they aren’t doing that themselves.

“[If] I’m not actually taking action to help others move forward, and in particular not the big organisations, not the well-resourced ones, but perhaps people whose opinions we can shape and shift

to encourage ... then our problem will be not making the right contribution to the industry to get us towards a profession,” the group said.

“[It] is, what do we each do, not just with our own businesses, but with others, to move forward?”

The final call was to ensure that the public better understands the push to raise standards, as a way of encouraging more people to seek advice.

“At the end of the day, people still don’t understand advice, as a generalisation,” the group said.

“A lot of consumers aren’t seeking advice because they just don’t know. They’re not aware of what it is, and so if you don’t know what it is and it’s not well sold and well marketed and well-positioned, [and] all you’re reading is that things like the dates of complying with degree-minimum standards and so forth has been pushed [out], then your overall impression is a negative one – on something [that] you don’t even understand.” ■

The financial planning industry has “a lot of work to do” to increase the use of planning services from the generally accepted level of one-in-five adult Australians, and to raise the image and the standing of the emerging profession, the 2016 Dealer Group Summit has heard.

Discussion Group Two said: “You don’t hear in the press the negativity about the members of other professions,” to the same extent financial planning. Part of that is linked to incidences of poor advice, and it is also partly due to the industry regulatory structure.

But the group said that product manufacturers must step up and take responsibility and accountability for product failures, which often unfairly reflect poorly on advisers.

“The past few years while the planning community, the advisers themselves, have probably caught a fair slap in the media about it, what’s lost in this conversation in some ways is that there’s been a number of product failures as well, which have then led subsequently on to the advisers being whacked,” it said.

“We are really reliant as advisory groups on the product providers doing their job as well, and it’s a big two-way street. A big two-way street.”

The group said that the licensing regime “actually makes it so simple for people to pick up information and get it in the press”

“We have got a lot of work to do. There’s no doubt we’ve got an image problem. We’re a bit like lawyers, in that if you’ve got a lawyer you love him, but we really can’t stand lawyers in general. That’s probably where we’re at.”

COMPLIANCE REQUIREMENTS CAN ‘GET IN THE WAY’

The group questioned whether the generally accepted level of market penetration is accurate.

“We may have engaged 20 per cent on an ongoing basis, but the reality is we’re probably engaging a lot more people. It’s just that we’re doing it in a different way and we’re project managing things for them. They might be coming to us for mortgage advice these days. Is that financial advice? I tend to think it is, because that’s the way the consumer will probably use it.”

The group said that compliance requirements can get in the way of a great advice experience, and that might be affecting people’s willingness to seek advice.

“As licensees [we] have a tendency to think that we’re putting out the best things we possibly can to help our planners undertake that role, but the reality is the advice process is pretty daunting for someone coming through the door,” the group said.

“A fact find is a pretty onerous document for people to fill in, but we need it done. We probably need to think a little bit deeper about how we actually get that customer, [how we] get an engaging experience working a lot better and a lot more efficiently, and make it less daunting for the customer.”

The group said the cost of delivering advice might also be a factor in relatively low market penetration.

“When we look at it we [licensees] are effectively aggregators, just like our mortgage businesses,” it said.

“Part of our role really is about making sure that whatever we can bring to the party is extremely cost-efficient for the advisors, and also cuts out some of the administration.” ■

PART TWO THE “ONE IN FIVE”

IMPROVING THE INDUSTRY’S REPUTATION

WITH PRESS NEGATIVITY AND ONLY 20 PER CENT OF THE AUSTRALIAN PUBLIC USING ITS SERVICES, FINANCIAL PLANNING NEEDS TO LIFT ITS GAME TO AVOID BECOMING THE PROFESSION ‘THAT DARE NOT SPEAK ITS NAME.’



PART THREE VERTICALLY CHALLENGED!

VERTICAL INTEGRATION NOT ALWAYS 'STRAIGHT UP AND DOWN'

IT'S NO GOOD RELYING ON THE GOVERNMENT TO IMPROVE EDUCATIONAL STANDARDS FOR PLANNERS. **THE INDUSTRY NEEDS TO WORK TOGETHER TO IMPROVE THINGS FROM WITHIN.**

Vertical integration isn't necessarily the evil it is often made out to be, and integrated institutions are well placed to help support advisers to become professionals and to support the delivery of great advice, the 2016 Dealer Group Summit was told.

Discussion Group Three defined vertical integration as "the value chain between product curation and proliferation, sales distribution and financial planning – which means it's not just the big five and IOOF; it's anyone who has an operation who does that".

"In fact it's quite powerful because it allows you and enables you to do things that you couldn't otherwise do if you were a small operation with less capital," the group said.

"It doesn't make you better. It doesn't make you worse. It just makes you different.

"Often a client will go to a large institution because they know if the world turns to custard, that institution will make rectifications and put them back in the place where they should have been. What they need to recognise with all groups that for us, and particularly in vertical integration, reputation is everything."

STRONG COMPLIANCE AND BUSINESS SUPPORT

The group said vertically integrated institutions can offer strong compliance and business support to advice practices – but compliance is just one part of good governance.

WE'RE HERE BECAUSE WE ARE THE DRUG DEALER AND WE CREATED THE JUNKIE, SO I THINK IT'S REALLY IMPORTANT THAT WE UNDERSTAND THAT WE HAVE A RESPONSIBILITY FOR THE REHABILITATION AS WELL

"Let's face it, if you run a licensee or if you deal with a salaried adviser, there are small business owners trying to make a living," the group said.

"They're all trying to put a cheque on the table for not only themselves but the people that they employ. It's incumbent upon us to make sure that those businesses stay viable, commercially viable, for many reasons. One, because of the livelihood of the clients they serve; two, for the livelihoods of themselves and the staff that they support; and three, it's just good for our industry.

"We can't have businesses going belly-up, especially in vertical integration, because we didn't support them. It's incumbent upon any licensee to not only help them give better advice, [and] keep them better educated and to give them access to better information, but also show them how to run a better business. Indeed, that's really important for any business, vertically integrated or otherwise."

Not everything is rosy in the vertical integration garden, however. Members of the discussion group started their financial services careers in the 1980s and remember well the role vertical integration played in the creation of tied agents. Vertically integrated businesses need to acknowledge whatever role they played in creating conflicts of interest in the industry that

were subsequently addressed by greater regulation, have a responsibility to support advice practices, should help advisers deliver great advice, and facilitate the transition to a profession.

"We're here because we are the drug dealer and we created the junkie, so I think it's really important that we understand that we have a responsibility for the rehabilitation as well," the group said.

BIGGEST LICENSEE PROBLEM

The group said the problem that all licensees are trying to solve is "how do we give great advice to Australians?"

"If we start with that problem, and clearly understand that problem and what could that mean, we could actually stop this issue of over-regulation. We're over-regulated for the same thing: we're not giving great advice – but no one has defined what great advice is. There is no-one speaking for us. There is no consumer speaking for us, not in a positive way anyway.

"Best interests duty is what a great adviser has done and does do, as the day job. It's the regulator that assumes that we haven't – but we created the mess, put the cart before the horse, or the chicken and the egg. Whatever analogy you want to use, we created the mess." ■

PART FOUR : CHURN, AND THE QUALITY OF ADVICE

PLANNERS BEHAVING BADLY

THE DEALER GROUP SUMMIT HEARD THAT ALTHOUGH LICENSEES AGREED THAT UNDER THEIR DEALERS' LICENSES THEY WERE GOING TO RID THE INDUSTRY OF BAD APPLES, THERE WERE STILL "DODGY" ADVISERS.

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PEOPLE ARE RELUCTANT TO PAY FOR ADVICE BUT THEY WILL PAY FOR OUTCOMES, SO WE COULD GIVE THOUGHT TO WHAT THOSE OUTCOMES, THOSE CONSUMER-DRIVEN OUTCOMES ARE LIKE, AND HOW TO GET ENGAGEMENT AND GET PEOPLE TO PAY FOR THAT

The financial planning community should be brave enough to call out instances of poor behaviour and take the initiative in policing its own

ranks, the Dealer Group Summit heard.

Discussion Group Four said there has been "bad industry practices previously, and we'd like to think that they have been exposed and discussed, but there are things that are inevitably going to come out".

"We should call it, go to the regulator and be brave enough to speak up and mediate where that needs to happen," the group said.

"Ridding the industry of bad apples definitely falls to licensees. We all agree [that] under our dealers' licenses we were going to get rid of people that were creating a problem, and yet everyone in this room I'm sure can name a dodgy adviser.

"We can name some very good ones as well but these people do seem to still be around, and it's definitely a problem."

THE GOOD, THE BAD AND THE DODGY

The group said the quality of advice can be improved if it is designed in a way that appealed more to consumers rather than in response to regulations and laws and what suits licensees or advisers.

"We've got a framework ... where advice is delivered in the way that we want to deliver it," the group said.

"When we say the way that we want to deliver it, it is the way that the law requires us to deliver the advice, rather than saying to the client, the consumer, 'How do you want to receive the advice?'"

If advice were delivered in more consumer-friendly ways, then more people might be convinced to pay for it, at a price that reflects its true value, the group said.

"People are reluctant to pay for advice but they will pay for outcomes, so we could give thought to what those outcomes, those consumer-driven outcomes are like, and how to get engagement and get people to pay for that," it said.

The need for high quality advice was especially acute in light of statistics in direct sale of risk products where "we think that there's about 50 per cent of claims that are paid out".

AS THE WORLD CHURNS

"Anyone who watches daytime television understands how people are bombarded with insurance offerings; whereas it would seem that about 90 per cent of claims are paid when people have insurance because it's been recommended by the adviser," it said.

"You both have the higher quality in the insurance offering and then the help when it comes to claim time as well. We don't seem to be doing a very good job of explaining that, promoting our services, education, in terms of the barriers to entry and the proposed increase in the barriers of entry; and also education to consumers about why advised insurance recommendations are better than people going it alone."

The group said that it is important to accurately define what "churn" is.

"We need to explain to ASIC what conclusions we arrive at around churn, and our definition of churn, and then we need to self-regulate - which means that the manufacturers need to call out where they're seeing evidence of churn that is completely unjustified," the group said.

The group added that "paying for insurance out of super is a problem waiting to happen, particularly where you've got people ... that are no longer contributing to super and those account balances are going to be evaporated over time". ■

A profession's code of ethics not only informs the actions and behaviour of its practitioners, but also acts as a clear signal to the public that the profession's members are committed to high standards, the Dealer Group Summit has heard.

But for a profession to be taken seriously it must be prepared to act against its own members who breach the code, Discussion Group Five said. That can be a simple sanction or, in extreme cases, expulsion from the profession.

"[We have] touched on the concept of the recalcitrant adviser, and we all know where they turn up and nobody does anything about it," the group said.

"It gets to the analogy of nobody takes the hijackers of the plane seriously until they've put a body on the tarmac.

"Maybe that's what we need to demonstrate – some of those very hard messages to get us seen in the light in which we deserve to be seen."

'ORGANIC' BEHAVIOUR

The group said trust and confidence can only be established through repetitive behaviour.

"So how do we get everyone in the industry to demonstrate the right behaviours? The easy way to do that is to have everyone adhere to a code of ethics," the group said. But it is critical that the behaviour be organic – created and driven from within – rather than imposed from the outside.

The group said there is "a perception, potentially, of us being seen as unwilling participants to adhere to a code of ethics". There is a potential benefit in adopting an industry-wide code, ahead of the timetable set out in draft legislation on education and professional standards.

The group said that an appropriate structure for the proposed standard setting body is critical to ensuring any industry-wide code is relevant and therefore workable.

"We needed to have industry representatives on that body as well as consumer representatives, which I think

IF THE PLANNING PROFESSION IS TO BE TAKEN SERIOUSLY – AND INDEED BECOME A PROFESSION – IT NEEDS TO HAVE A CODE OF ETHICS, PROFESSIONAL STANDARDS AND STRONG SELF-REGULATION.

nobody would disagree with," the group said. And a code should work in conjunction with the ASIC financial advisers register, so advisers who are expelled from the profession are also removed from the register and unable to practice.

"We could look at proxies in the accounting profession and legal professions in terms of how those codes of ethics and self-regulation would run," the group said.

"There was unanimous support for a self-regulated code of ethics, and for us to move to a [code] quicker and sooner rather than later, even though we may not have all the answers and we may not know exactly how that all works. For us to get there and to be demonstrating that we're doing the right thing and that we take it seriously, and for us to go somewhere to addressing this issue of consumer confidence." ■

PART FIVE PROFESSIONAL STANDARDS AND SELF-REGULATION

PLANNERS COULD BE 'DISBARRED' LIKE LAWYERS

SENDING A MESSAGE

The group said strong professional codes send an unmistakable message to the public.

"While everyone may have a view on lawyers, they do know that lawyers adhere to a code of ethics," the group said.

"They do know that lawyers have the principle of being disbarred, which is not something that we have in the [financial planning] industry. If we had a code of ethics where we could see that they govern behaviour as well as advice, and the concept of an adviser being disbarred, would that go a fair way to building consumer confidence?"