6.2. Recommendation 2

Empower consumers by enabling them, at their discretion, to stop paying financial planning advice related commission and/or fees at any time.

6.2.1. Our rationale for this recommendation

In Recommendation 1 we addressed stopping the ability of product providers from being involved in setting or paying payments to financial planners and financial planning companies.

Here we address an associated problem. Currently in some instances clients do not have the right to turn off advice related commission and fees that the product providers are paying to financial planners. This is the case even if clients are not happy with the advice service they are being provided or even if they are not receiving any advice service!

In this we would include the following:

- Insurance products
- Employer (Corporate) superannuation

In these and other instances, the product providers deliberately embed advice fees into the product which the end client pays and prohibit the client from stopping these fees, whether they want the advice or not. We believe this practice must be stopped.

In the case of insurance, commissions are embedded into premiums and clients can never turn these off. As financial planners retire these commission payments of existing clients are passed onto other financial planners who buy the 'book' of insurance clients from the retiring financial planner.

Clients should in all instances:

- Have the right to switch any such financial advice fees off at any time at their discretion (not financial product related fees); and
- Be credited with a corresponding amount to their account (ie the product provider should not be able to stop paying the fee to the financial planner and absorb it back into their profit margin)

If a financial planner is providing a quality value adding advice service to the client, then the client will not mind paying fees and will not switch off the fees. If the financial planner is not providing a value added service, then the client should be able to turn the fees off.

Quote from General **Manager of MLC Advice Solutions, Greg Miller:**

> *"Being able to stop paying the advice fee is also a critical principle - in no other industry would we question the right for a customer to stop paying for services if they no longer want them."*

6.2.2. Case study example

We have a current client's employer super statement (a well known employer, well known product provider, we will not disclose these details). From this report we can see who the 'client adviser' is – he/she is named on every page. The client has never heard of or met this adviser.

We cannot tell from this statement:

- How much the client is paying this adviser ($ or %) (I presume from this that fact that most clients will not even realise they are paying for his/her advice!)
- What service the client is getting for whatever amount they are paying this person
- How the client can get rid of this person's services from their super account and so reduce their fees.

At a Centrelink related presentation we gave recently, the most frequent and fully justified client complaints were:

- Clients simply couldn't turn the advice fees off they were paying in their super (commission, fees, etc) – they were not allowed to by their product provider. That is wrong in our opinion.
- They'd never met the advisor allocated to their account or had met the adviser years ago and never heard anything more from them.

The client should be able to turn advice fees off at any time they want, at their discretion. If this means they no longer receive advice, then so be it. If they perceive they are getting a good value added advice service, then they will opt in and won't turn it off. If a financial planner is providing a value added service to the client then they have little to lose.

We recognise that some financial planners may argue, say in the case of corporate super, that the work and effort they put into servicing all the members of the fund can only be provided if all members are forced to pay a small amount. We argue that it does not matter how much work a financial planner feels they are doing for fund members behind the scenes – if the client does not perceive they are getting value for their advice fees or if they do not want advice in their super then they should be able to turn the compulsory fees off and they should not have to pay for a service they do not want. It is the advisor's role to educate the client on the value of the service they are receiving. Again, if a financial planner is providing a value added service to the client then they have little to lose from this change.

Further, we argue that it also does not matter if that client's fees are supporting someone else in the funds' advice service (in fact as I believe in user pays I'd argue they shouldn't cross subsidise). This is not a valid argument that protects consumers or develops the industry. If individual clients want to turn off the advice fees they are being charged on their account then they should be able to.

Quote from a consumer:

> *"Ever since I retired 8 years ago I have not seen or been contacted by a Financial Planner. Being a self funded retiree I largely did all the 'work' myself but still went through an AMP planner. No I don't blame the planner for the disastrous performance that has resulted in a massive reduction of my allocated pension balance but I do feel grieved that I am being slugged to provide for trail commissions to the planner who for me has done nothing ie not even a letter or a phone call. I think that the govt should outlaw the payment of trail commissions and order they be reimbursed. Some of those trail commissions 'stolen' from my pension balance over the years would now come in handy."*

Quote from the Australian newspaper 'Spanner in the financial planner's work' 13th May 2009

> *"As things stand, consumers pay indirectly for the advice they receive. A financial product manufacturer deducts money from an investor's account. It might be once a year, it might be twice a year, it might be at some other frequency; that is not strictly relevant.*
>
> *All the FPA is proposing is that instead of the manufacturer deducting money and paying the planner, the client effectively pays the planner directly. What's the big deal?*
>
> *But being asked to pay might come as a bit of a shock if a client does not properly understand what they're paying, or that they're paying at all, (because, for example, it has not been properly disclosed by the planner). Then a planner has to either demonstrate the value he's providing, and justify the cost of the services provided, or negotiate a cost that the client is happy with. And if an agreement can't be reached, the consumer can find another planner."*

6.2.3. A challenging reform

We recognise that this will be a challenging reform for existing businesses to implement.

Many current financial planning firms are reliant on recurring commission revenues to support the value of their business. Allowing consumers to turn off advice fees at their discretion could destroy part of the whole value of their business.

We recognise that many financial planners will oppose this recommendation and our recommendation that product providers be prohibited from making payments or providing benefits to financial planners and financial planning companies.

However, to turn financial planning into a true profession we believe these difficult reforms are essential.

6.2.4. How consumers benefit from this recommendation

This recommendation simply empowers consumers. It allows them the control to pay for and receive an ongoing financial advice service or not if they do not want it. It takes that power from the product provider and gives it directly to the consumer.