



Saving the Independents

**Maintaining and Enhancing Competition and Choice
for Consumers in the Financial Services Market**

***Incorporating the establishment of the AIOFP Consultative
Committee (ACC)***

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“If you always do what you always did, you always get what you always got.”

Anonymous

Recent history has clearly demonstrated that the independently owned sector needs to change the way it operates at a political level if it wants to survive and flourish in the post FOFA environment.

The independents can no longer afford to have other organisations representing their specific interests with Government and ASIC.

It will not be in the best interests for consumers if the market is dominated by a small group of institutions, the market needs choice and competition to maintain a healthy balance.



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EXECUTIVE SUMMARY

Never before in Australian political history has there been such a determined effort by a Federal Government to disadvantage a section of the small business community.

How many times have we heard over the past 3 years that the independently owned advisers [independents] are finished? It has emanated from all industry stakeholders at various times to the point where many independents have started believing it themselves. This almost self fulfilling ideology has to stop.

The AIOFP Board believes that the future for the independent adviser is exceptionally positive and our fortunes will dramatically change over the next 6 months. We base our future predictions on not only emerging political events such as the Federal Election but actions we can put in place as a collective and the consumer's intuitive appetite for advice from independently owned practices.

For us to move forward we must analyse what has happened over the recent past, accept responsibility for our short comings and put in place strategies to protect our collective position. We believe the following issues need immediate attention:-

- 1. PAST RELUCTANCE TO SELF REGULATE** – Over the past 30 years the industry has failed to read the political climate. We have largely relied upon the Institutions to initiate change as the dominant market force which has been a mistake. The Gillard Government and in particular Minister Shorten and his political allies have targeted our sector for extinction by imposing discriminatory legislation that allows the Institutions, Industry Funds and SMSF promoters to cross subsidise advice but insists on the independents to operate a 'pure' business model. This skewing of Conflicted Remuneration policy has only improved the commercial situation for the Institutions [by retaining the revenue], done very little for consumers but potentially starves our sector of a critical revenue source. The independents need to demonstrate their preparedness to self regulate to give Government and consumers greater confidence in our sector.
- 2. RELIANCE ON OTHER ENTITIES TO CHAMPION OUR CAUSE** – Although there have been some generic FOFA issues that potentially affects the entire advice industry; we have been naive to expect that entities with strong institutional influence in their membership/management will promote our specific needs with



Government. This has to change, it is crystal clear we need to do our own lobbying with Government and ASIC to support our specific needs.

3. **A UNITED VOICE** – Over the past 30 years it has suited the product manufacturer’s distribution agenda to have a politically fractured independent market. This strategy has only fuelled the natural competitive nature of independent business participants but it has to be moderated. We now only represent around 15% of the market and we cannot afford to allow this ‘divide and rule’ culture to continue. We need to realise who the real competitors/threats are, put aside political differences and start acting as a collaborative united faction.

Recently we had a very fruitful meeting with Senator Mathias Cormann about the plight of the independent sector and how a Coalition Government can assist our future. We floated the idea of an independent committee representing the sectors commercial and political interests to deal directly with his office and whether he is prepared to meet with us on a regular basis. We are pleased to inform you that the Senator has agreed. We will also meet with ASIC, APRA, Treasury and any other agency that impacts our position on a regular basis.

We then presented the Foundation objectives of the AIOFP CONSULATIVE COMMITTEE [ACC] for the Senator’s consideration:-

1. **PLATFORM RECLASSIFICATION** - Platforms are administration services NOT Investment Products. This erroneous interpretation by ASIC has discriminated against the independents under the Conflicted Remuneration guidelines. Platform profits [which includes SMSF structures] cross subsidise over 90% of the advice industry however this interpretation only impacts on the independent sector. We will be seeking an accurate reclassification of the term which should exclude platform revenue from conflicted remuneration policy.
2. **TRANSPARENCY IN ADVICE PROMOTION** – Pre 2005, institutionally owned or aligned practices had to clearly display the logo of the ultimate Institutional owner of the AFSL they are licensed to. This gave a clear message to the consumer who they are dealing upfront instead of finding out in the small print of the FSG after being ‘sold’ on the services. Over the past 8 years this fundamental transparency requirement has not been enforced. We don’t mind consumers dealing with Institutions we just think they should know up front whether they are or not.



3. **MITIGATING FOS AND COSL'S OPERATING ENVIRONMENT** – Most agree with the concept of EDR's to assist consumers but the lack of procedural fairness and natural justice for advisers is demonstrably wrong - a balance needs to be found.

4. **ELIMINATING OPT IN** – The Senator's position on this matter is well known. It is a ridiculous unnecessary impost that was designed to cause an immediate diversionary reaction whilst other agendas were passed into legislation. .

We are pleased to say that the Senator agreed with these 4 objectives and will work closely with ACC to assist their realisation wherever possible.

ACC's overall objectives are to install confidence back into the independents, create a more level industry playing field and clearly differentiate independent advisers from the institutionally owned or aligned so consumers can make a clear choice on who they wish to deal with.



WHY THE AIOFP AND ACC?

Associations can only serve one master; they cannot be expected to serve multiple masters particularly in an incredibly diverse and complex industry such as ours. We were naïve to think that entities dominated by institutional, Risk or SMSF influences were going to fight the inequities of retail platform revenue discrimination and institutional ownership transparency for consumers on behalf of the independents.

We believe FOFA has been specifically designed to primarily disadvantage the independent 'main stream' practice that operates their own AFSL, have no institutional ownership and offers generic advice. We also think it is fair to say that the 'winners' out of the FOFA fiasco have been the Institutions, Institutional/aligned advisers, Industry Funds and SMSF promoters who are permitted to use either platform/administration profits to cross subsidise advice.

[We are bemused that most SMSF advisers do not acknowledge that they have taken the administration/platform revenue away from the institutions to subsidise their practice and consider platform rebates to be conflicted].

The AIOFP member eligibility criteria falls precisely into the Government targeted area of 'main stream' practices mentioned above. The AIOFP has no past or present institutional presence in its management or board and only has independently owned advisers in its membership - needless to say we are totally focussed on what is in the best interests of our membership.

We believe the AIOFP is the only organisation of any scale that can comprehensively represent the mainstream independently owned practice and encourage all to join. Politicians only recognise numbers and member numbers assist the financial strength of the organisation to adequately serve its members.

Last year the AIOFP Board decided to lower its membership fees to assist members in a tight market and also encourage other members to join. The AIOFP Board have had the establishment of the ACC in mind since March 2012 when the manipulations of the FOFA legislation became apparent between the various stakeholders involved on that fate full day in Parliament.



THE AIOFP CULTURE AND BUSINESS MODEL

The 1998 founding objective of the AIOFP was to further the commercial interests of members. It was fruitless for the AIOFP to become another 'vanilla' association; we had to have a point of difference to attract members. The founding Directors charted a course to use the scale of our members to negotiate platform/service outcomes that benefitted its members and their clients. We have never diverted from this objective.

THE AIOFP BUSINESS MODEL

The AIOFP Business Model revolves around the central entity (i.e. AIOFP) leveraging off the scale of its members to deliver benefits back to its constituents and their clients.





Unfortunately some get confused with the role of the AIOFP over the past 15 years. There is no standard association template or stereotype on how an association should conduct itself except for one fundamental objective; it must act in the members' best interest. The Board will argue that our service culture is essential to operating a successful practice for the benefit of the advisers and their clients.

The Board now wants to include political lobbying as a key benefit for members.

Due to the profound differences in the AIOFP member services many of our members are also members of other Associations. Again, we encourage all independently owned practices to get involved to centralise our strength for the benefit of all.



ACC PROPOSED STRUCTURE

The committee is designed to represent the leading figures in the independently owned sector who have the experience and propensity to deal with the Ministers office, ASIC, APRA and any other agencies/stakeholders in our industry. We see a mix of small, medium and large advisory group Directors to represent a wide cross section of our industry to ensure all issues affecting our sector are covered.

The AIOFP Board will be inviting Directors from both within and outside the AIOFP membership. We are working on no more than 12 participants to be appointed on initially an honorary basis with the intention of paying a sitting fee in the short to medium term. We envisage the committee to meet on a quarterly basis but have the flexibility to meet on a needs basis particularly in the first 3 months after the September 2013 Federal election.

Due to the size of the committee we will have small, specialised working groups to deal with specific issues and report back to the central entity.

We see no value in meeting with the current Minister considering his past views and actions against the independent sector.



SUMMARY

There is no doubt the independent sector has been harshly treated by the Federal Government. Although we agree with certain aspects of FOFA, we believe some conditions of the critical Conflicted Remuneration regulations are highly discriminatory to our sector. This issue needs to be urgently addressed to ensure consumers have a healthy independent sector that provides choice and competitive pressure to the institutional and industry fund domination of the market.

ACC's other 3 foundation objectives have been specifically selected to also assist levelling the advice playing field and create greater transparency for consumers.

We have placed too much faith in other organisations to represent our interests at a political level. We have been naive to expect that organisations that have a high degree of institutional influence in their management and/or membership would want institutional advisers to be more transparent with consumers with ownership/alignment or would want independents to compete with them on a revenue/cross subsidisation basis. Also, considering most institutions self insure and immediately settle COSL/FOS claims, why would they have any interest in COSL/FOS operations?

The solution is very clear, the independent sector needs to regularly meet with the Minister and ASIC to address our specific issues, demonstrate our propensity to self regulate and eliminate practices that are not in the best interests of consumers.

The AIOFP is the largest association exclusively representing the independent sector with only one master to serve. We encourage all independents to get involved to protect our collective future.