Financial planners confront more change

Changes that will affect the world of financial planning were discussed at two recent PD seminars. Speakers explained regulatory reform of financial services licensing and—yet again—the superannuation system.

The language of financial planning and advice came under scrutiny at a March Securities Institute seminar highlighting the implications of the Financial Services Reform Act. An audience of planners heard that disclosure provisions of the act could profoundly affect their relationships with clients.

Pam McAlister of Freehills explained that the changes imposed by the act aimed to create a consistent licensing regime for all providers of financial services, as well as consistent and comparable product disclosure.

The provisions had a broad reach, encompassing securities, insurance, superannuation, managed investment and deposit-taking products, McAlister said. Some of these products were new to the licensing regime; others were already subject to regulation.

Definitions take on a new importance as regulations under the act apply special rules to particular products and concepts such as “dealing” and “advice”. The latter is broadly defined and includes any information likely to influence people to make a decision about a financial product.

The definition of a financial product also becomes challenging. Planners are faced with differing requirements when dealing with wholesale or retail clients, McAlister said. How is a retail client defined? Generally, in superannuation and insurance, every client is regarded as a retail client; in other cases, where an investment is valued at $500,000 or less, it is in the retail category.

Very detailed requirements apply when providing financial services to retail clients. These include the provision of a Financial Services Guide, a Statement of Advice, and specific warnings if advice is prepared without considering the client’s individual circumstances.

Planners must also be aware of restrictions on the language they use. For example, the words “independent”, “unbiased”, and “impartial” are prohibited if the planner is to receive any consideration. The terms “stockbroker”, “sharebroker” or “futures broker” are banned unless the person giving advice is specifically licensed. McAlister warned that these prohibitions meant that advisers would have to review their promotional material carefully.

“Anti-hawking” provisions have also been toughened: advisers cannot offer financial products for issue or sale when “cold-calling” retail clients.

The new provisions lend special weight to the content of Product Disclosure Statements, which replace Key Features Statements and many prospectuses. Some items are obligatory and some discretionary, but generally a PDS must contain information about significant benefits, risks, features, tax implications, costs, dispute mechanisms, ethical considerations and any “information actually known”.

McAlister told financial advisers that it was now time to look again at their products, services and client base, prepare guides and advice procedures and set out an implementation timetable in the context of the new act.

Another speaker, Joanne Jemmeson of Lonsdale Financial Group, emphasised the importance of understanding the licensee’s obligations, reviewing internal policies and procedures and instituting appropriate training and compliance systems.

How much, for how long?

The seemingly endless change in the complexion of superannuation in Australia has accelerated with a range of new government proposals. According to David Knox of PricewaterhouseCoopers Actuarial and David Shirlow of Macquarie Bank, who addressed an Institute seminar, the proposals have both positive and negative aspects.

Focusing on the problem of increasing lifespans and the questionable adequacy of existing arrangements, with a 9% Superannuation Guarantee at their core, Knox said that some assumptions about incomes and employment were wrong. The SG alone was inadequate to provide a satisfactory retirement income for most people. He said Australia needed incentives for long-term private saving, and flexibility for people to stay longer in the workforce.

Shirlow said the new proposals recognised a role for children in superannuation by allowing parents and grandparents to make an annual $1,000 contribution for a child’s first 18 years. Compounded, this “intergenerational transfer” would have a dramatic effect on eventual benefits and could solve the adequacy problem.

The government was also considering a “growth-based complying pension”, similar to an allocated pension but based on an enhanced life expectancy, which could alleviate the risk posed by increasing longevity. J

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