

F U T U R E

R E A D Y

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*FPA Professionals*  
**CONGRESS**

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PERTH 23-25 NOV 2016



FINANCIAL PLANNING  
ASSOCIATION *of* AUSTRALIA

# PROTECTING YOUR PROFESSIONALISM

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FINANCIAL PLANNING  
ASSOCIATION *of* AUSTRALIA

# AGENDA

The common issues arising in disputes

How to build resilience to risk within your advice practice

Our top ten tips for advisors to ensure quality advice outcomes

How to engage effectively in your professional relationship with your client

How to effectively engage with your PI Insurer

Our checklist for dispute handling

Our tips for PI renewal time

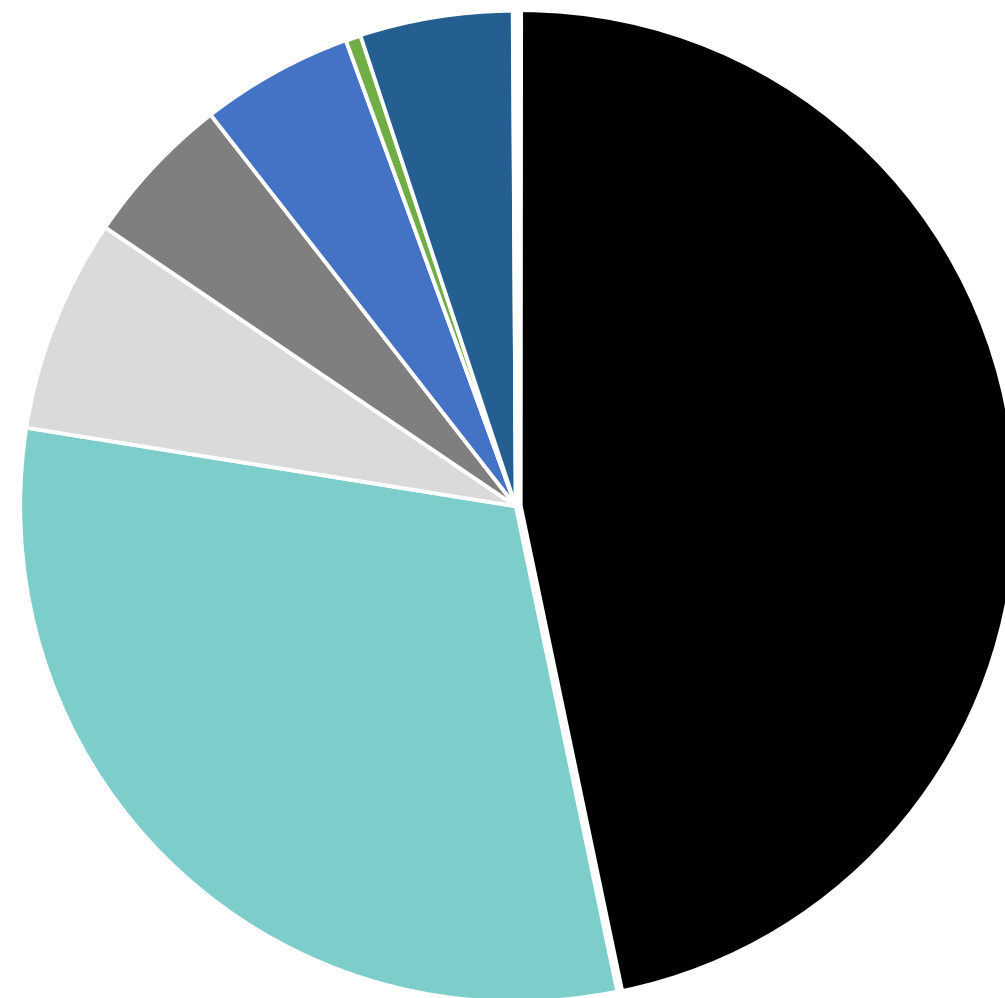


# THE COMMON ISSUES ARISING IN DISPUTES

	2015/16	2014/15	Change
FOS Members	13,576	14,107	4%
Disputes Received	34,095	31,895	7%
Disputes Closed	32,871	34,714	5%

Product Line	Disputes Accepted FY 15/16	%
Credit	10,438	47%
General Insurance	6,858	31%
Deposit taking	1,546	7%
Investments	1,141	5%
Life Insurance	1,095	5%
Outside TOR	113	0.5%
Payment Systems	1,163	5%
Traditional trustee systems	22	0.1%
<b>TOTAL</b>	<b>22,376</b>	

Disputes Accepted FY 15/16



- Credit
- General Insurance
- Deposit taking
- Investments
- Life Insurance
- Outside TOR
- Payment Systems
- Traditional trustee systems

# INVESTMENTS & ADVICE DISPUTES

- FOS accepted 1,141 investments and advice disputes in 2015-16

## What were they about?

Product Category	%
Managed Investments	37%
Superannuation	28%
Securities	18%
Derivatives/hedging	10%
Real property	1%

Issue type	%
Advice	40%
Instructions	16%
Service	13%
Disclosure	11%
FSP Decision	10%
Charges	7%

Product type	%
Mixed Asset Fund/s	22%
Shares	16%
Self managed funds	12%
Foreign Exchange	7%
Retail funds	5%
Industry funds	4%
Primary Production Schemes	3%

## Who were they against?

Sales & Service Channel	%
Financial advisor/planner	38%
Stockbroker	14%
MIS Operator	10%
Derivatives Dealer	7%
Superannuation fund trustee	6%
Bank	6%
Securities dealer	4%
Make a market	3%



# LIFE INSURANCE & ADVICE

- FOS accepted 1,095 life insurance disputes in 2015-16

## What were they about?

Product Category	%
Income stream risk	55%
Non-income stream risk	42%
Not yet determined	3%

Issue type	%
FSP decision	53%
Service	18%
Charges	10%
Instructions	6%
Advice	5%
Other	8%

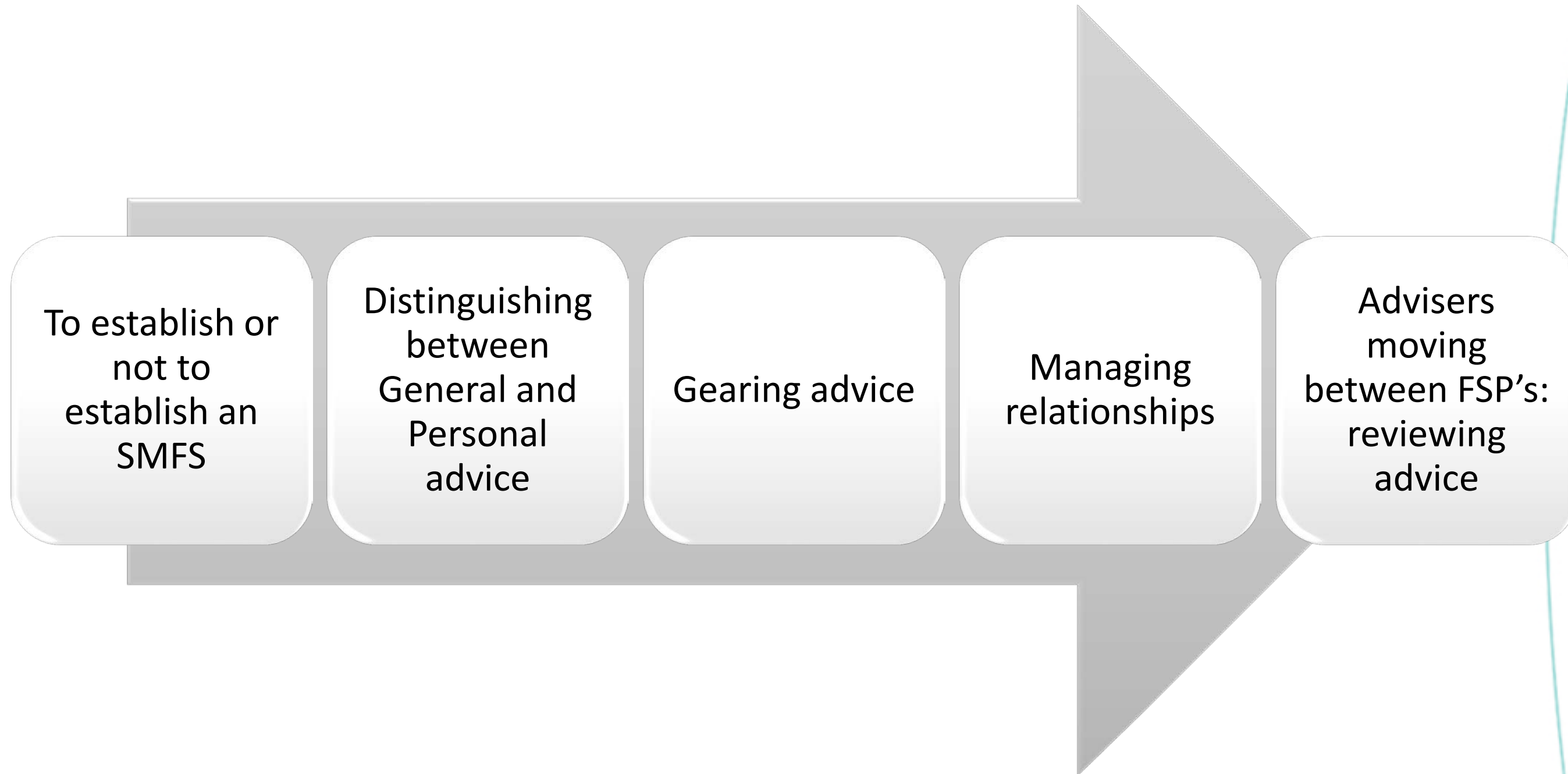
Product type	%
Income Protection	48%
Total & Permanent Disability	13%
Term Life	13%
Trauma	7%
Consumer Credit	7%
Funeral plans	4%
Whole of Life	3%
Other	9%

## Who were they against?

Sales & Service Channel	%
Life Insurer	70%
Financial advisor/planner	10%
Superannuation fund trustee/advisor	6%
MIS Operator	3%
Product Distributer	3%
General Insurer	2%
Bank	2%
Other	4%



# BUILDING RESILIENCE TO RISK: A CASE STUDY





# OUR TIPS FOR SMSF ADVICE

1. Was it suitable strategy for this client?
2. Did you compare the existing super funds – switching advice?
3. Insurance issues identified and controlled?
4. Are clients capable and clear about trustee responsibility.
5. What are the costs of administering the SMSF?
6. Roles and fees associated with all related aspects of SMSF advice?
7. What about investments, establishment, legal, admin – all clear and understood?
8. Were the risks explained (as against the benefits)?
9. Was there an investment strategy established and was it met?
10. Any borrowing or gearing by SMSF?





# GENERAL VS PERSONAL ADVICE

## *Was it personal advice?*

FOS will look at all of the circumstances to assess whether it was more likely

- than not that the FSP provided personal advice.
- Some of the relevant information FOS takes into account:
  - Was there a general advice warning?
  - Was there a reasonable expectation that it was personal advice?
  - Could the recommendation have only been made
- having regard to the applicant's personal & financial circumstances?
- How did the FSP/adviser conduct themselves?



# OUR APPROACH: GEARING AFFORDABILITY AND SUITABILITY

1. Is it a suitable strategy?
2. Was it affordable?
3. Was level of gearing appropriate?
4. If home was used as security, was that appropriate?
5. Any taxation implications and were they considered?
6. What did the client actually want to achieve?
7. How were the risks explained (as against the benefits)?
8. Self-funding strategies – how were cash flow projection calculated?
9. What did the client understand?
10. Was there additional complexity?
  - double gearing
  - structured products
  - margin call



# MANAGING RELATIONSHIPS: THE LICENSEE/CLIENT

Scope the engagement and be clear about:

- Your service model
- Competence to give the advice
- Turn clients away or refer
- Be careful of personal relationships
- Explain services that will (and won't) be provided



# YOUR PROFESSIONAL RELATIONSHIP WITH YOUR CLIENT

## Top 10 tips

1. Document, document – including detailed file notes
2. Know yourself – Know your business model, your service delivery and your competencies
3. Turn clients away or refer where appropriate
4. Explain what service you can and will provide – scope the engagement
5. Know the client – understand and be clear about goals and strategy – and link to advice
6. Use risk profiling tools and analysis carefully – it is just one aspect of the information to take into account
7. Understand and explain the financial products you recommend
8. Explain risk in language your client understands
9. Use template forms and documents carefully
10. Avoid cookie cutter advice



# ONGOING REVIEWS

JS was representative of three different FSP's over the course of the professional relationship with the applicant:

PR Pty Ltd

SW Pty Ltd

M Pty Ltd



# HOW TO ENGAGE EFFECTIVELY WITH YOUR PI INSURER

1. **AIM** - minimise delays to allow appropriate assessment and timely decision making;  
- empowerment to settle disputes whilst maximising cost-effectiveness of PI insurance.
2. Notify your PI broker/ insurer early in the complaint process – consider as early as the IDR phase and certainly as soon as dispute is lodged with FOS.
3. Notify all FOS disputes to your insurer – even if you think they will not exceed your policy excess.
4. Interests are aligned – both insured & insurer want disputes settled quickly and at lowest cost.
5. Provide your insurer with full documentation regarding dispute – be organised & transparent.
6. Listen to your insurer's advice/ feedback – disputes are their business so benefit from their experience.
7. Do not offer or agree to a settlement which will involve your insurer without their prior agreement.
8. Agree settlement parameters with your insurer prior to any conciliation conference.
9. The way you handle disputes will influence your insurer's perception of your risk profile.
10. Key elements – timeliness & transparency.



# OUR TIPS FOR PI RENEWAL TIME

1. Your PI insurance is important – no PI, no AFS licence.
2. Does your insurance broker specialise in PI for FSP's?
3. Start renewal process early – 6 to 8 weeks prior to expiry of policy.
4. Does the proposal form allow you to adequately describe your business/ risk?
5. Spend time on completing the proposal form – there is no such thing as too much information.
6. Provide full answers to all questions – not “see last year”, “known to broker” and the like.
7. Prepare full and detailed claims experience – past 6 years minimum, ask your broker for help.
8. If you have had claims, explain subsequent risk management actions to avoid re-occurrence.
9. Provide complaints register.
10. Your policy is only as good as your disclosure – be transparent!
11. Does your PI insurer specialise in the financial services segment? What is their experience in this segment and are they committed to it? Ask your broker about their opinion and your options.





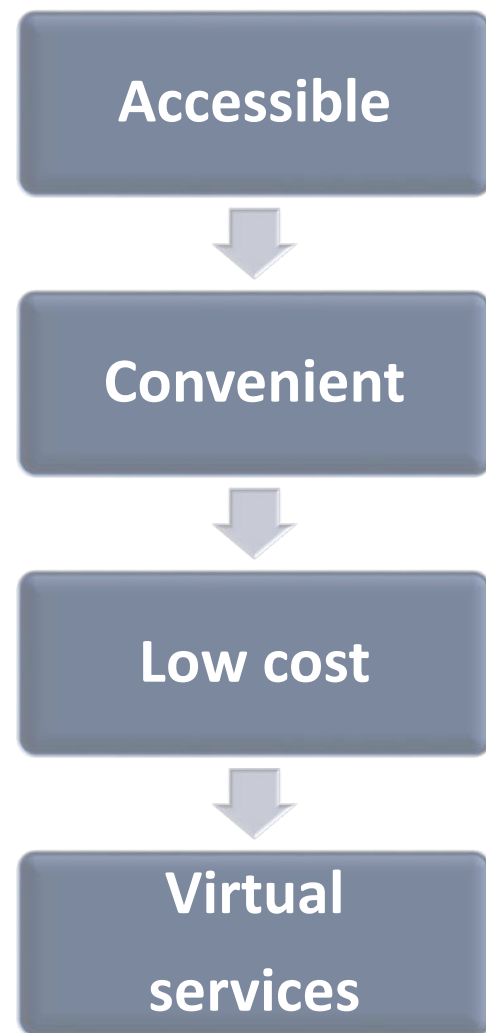
# HOW DO PI INSURERS UNDERWRITE AND MAP RISK?

1. Differences between insurers re approach and risk sensitivity.
2. Largely determined by each insurer's own claims experience but also market-wide trends.
3. Some common risk (& underwriting appetite) differentiators:
  - vertical integration vs. independence;
  - fee for service vs. commission;
  - large, diverse AR network vs. no or limited AR's;
  - extent of margin lending (risk multiplier);
  - "high risk" investment products;
4. FSP's claims history – paid claims rather than notifications.
5. Claims response – attitude, post-dispute risk management initiatives & transparency.
6. Stress tested by GFC?
7. Sample underwriting appetite – mid-sized, non-aligned, fee-for-service, asset allocators.

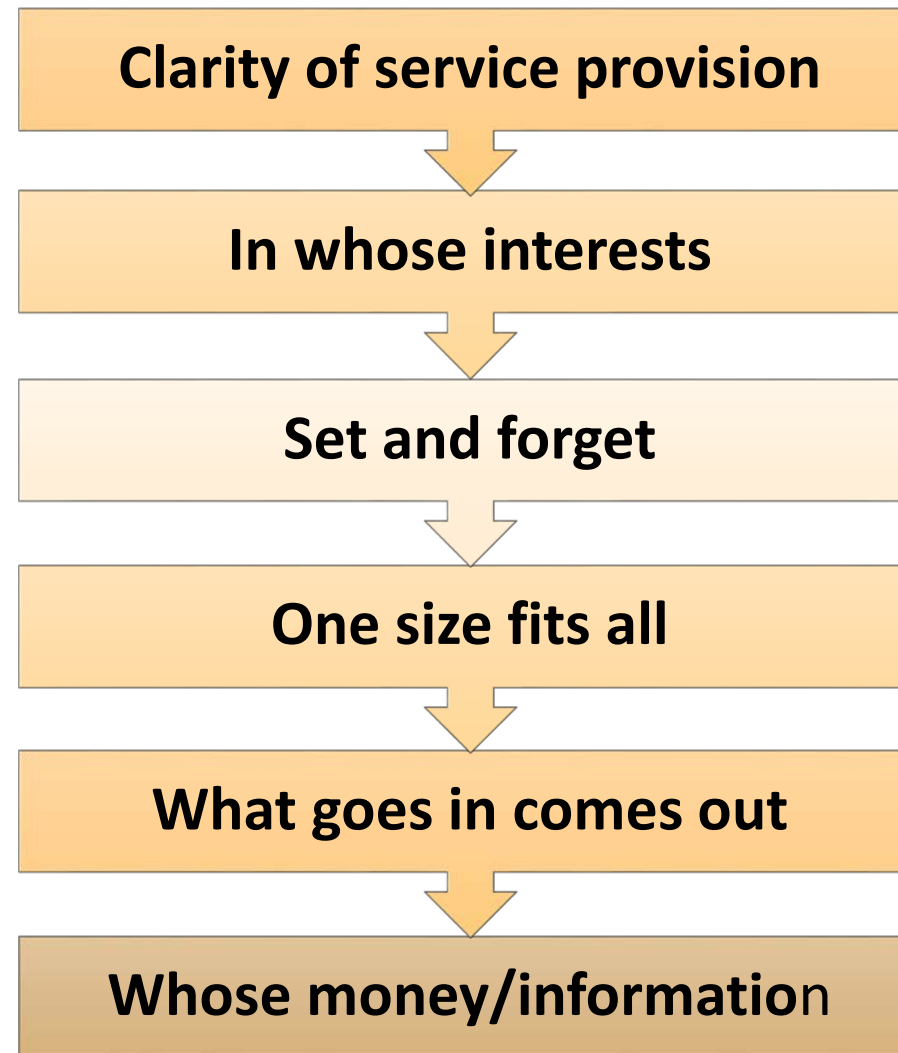


# FUTURE LOOK – DIGITAL ADVICE

## Benefits



## Risks



# CONCLUSION

1. Follow the FPA Code of Professional Practice
2. Advice is about the individual (in front of you) and his/her personal circumstances
3. Every situation is brand new
4. Avoid a one size fits all approach
5. Make sure to record the advice journey so you can demonstrate the process followed
6. Gearing does not suit every client
7. Affordability does not mean suitability
8. Disclose and check that client has heard and understood the benefits and risks of the strategy

