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FINANCIAL PLANNING  
ASSOCIATION *of* AUSTRALIA

# PARAPLANNER WORKSHOP

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# PRODUCT COMPARISON

## Why is this important

- It is a Corps Act Requirement
- It helps to place the client into an informed position
- An informed client is a happy client
- A client should be able to look at a replacement product table in your SoA and be able to make an assessment as to whether or not accept or reject your advice



# WHAT DOES THE LAW ALLOW?

- **What does the law state?**
- The law states the SoA must include:
  - Costs of **disposing** or reduction
  - Costs of **acquiring** or increase
  - Any **pecuniary** benefits
  - **Significant** consequences
  - Information required by the regulations
  - Disclose costs in **dollars**



# POLLING QUESTION

***Do we feel comfortable applying the law?***



# POLLING QUESTION

***What are the challenges you've come across in preparing product comparisons?***

- Availability of info
- Group/corporate super or badged products (transparency on fees etc)
- Not relying on call centre
- Comparison tool/software issues



# PRODUCT COMPARISON

## How has this gone wrong

- Advisers who recommend products that they or their staff do **not fully understand**
- Advisers using staff who are **not properly trained** and they fail to properly supervise them, ie **no robust advice production process**
- Practice owners **don't want to pay** for good quality staff

*“Train people well enough so they can leave, treat them well enough so they don't want to” Sir Richard Branson*



# PRODUCT COMPARISON

## How has this gone wrong

- Advisers **focus on the strategy** and not the Corps Act requirements
- Advisers who think they can scope out their advice to product selection **only and talk about the new product**, no info on the old product
- Advisers who **rely on template text** about advantages and disadvantages which are wrong or not relevant





# FUND CHANGEOVER ADVICE – TABLE ACTIVITY

*Initial thoughts?*

*Where has this advice failed to meet the requirements?*



# PRODUCT COMPARISON EXAMPLE:

## SMSF ADVICE

ASIC's key issues with SMSF advice:

- advice was not sufficiently tailored to the needs of the investor
- replacement product disclosure was absent or inadequate
- insurance recommendations were absent or inadequate
- an inappropriate single asset class was provided to investors
- suitable alternatives to an SMSF were not considered, and
- there was inadequate consideration of the investor's long-term retirement planning objectives.



# SMSF ADVICE

ASIC's focus:

- SMSF's under \$200,000!
- suitability – ability to cope with obligations/responsibilities
- quality advice and services



# SMSF WIND UP ADVICE – TABLE ACTIVITY

Comparison of estimated costs – example in workbook

*Initial thoughts?*

*What kind of benefits gained/lost are applicable here?*



# SMSF WIND UP ADVICE – TABLE ACTIVITY

*What kind of benefits gained/lost are applicable here?*

## ***Lost:***

- Ability to hold unusual assets (eg. direct property)
- Flexibility for estate planning in some circumstances
- Insurance structuring – potential to reduce providers available in moving to one retail fund
- ***Any more to add?***



# SMSF WIND UP ADVICE – TABLE ACTIVITY

*What kind of benefits gained/lost are applicable here?*

***Gained:***

- No further compliance obligations as a trustee
- Reduced administration requirements by you
- Reduced complexity for you (ie. opportunity cost - not having to manage obligations, reporting etc)
- Reduced cost
- ***Any more to add?***



# COST & RISK DISCLOSURE

## How this has gone wrong

- Advisers who **recommend a switch and rebate commission** but don't tell the whole story
- Compare products on a **monthly/annual basis**
- Advisers don't include all the fees or say, "**not disclosed**" ie don't have all the information



# COST & RISK DISCLOSURE

## How this has gone wrong

- Advisers who include the fees but not the entire cost
- Bundling insurances together as part of a comparison rather than the individual insurance product
- Forgetting to discuss the innocent three year non-disclosure rule
- Product providers disclose things differently





# HOW YOU SHOULD BE DISCLOSING COSTS AND RISKS

- Replacement product advice has to be treated as high risk advice eg vetted before it goes out
- Consider **three lines of defence** approach
- Do you really know your product?,
- Do you attach research on costs to replacement product table before sign off
- Have all the costs been included in dollars:
  - ✓ ICR/MERs
  - ✓ Adviser Service fees
  - ✓ One off fees
  - ✓ Portfolio management fees
  - ✓ Admin fees
  - ✓ Buy/Sell fees
  - ✓ Licensee fees
  - ✓ Insurance fees
  - ✓ Brokerage if applicable and an example of how it is calculated



# POLLING QUESTION

***What do you feel are the key contributors to inaccurate cost and risk disclosure?***

- Poor instructions from planner
- Time Pressures
- New Product
- Use of template text
- Unclear of the expectations for disclosure



# CANCEL AND REPLACE – TABLE ACTIVITY

- A client has come to your practice and said to the adviser they are struggling financially - they want to cancel their insurances.
- The adviser knows this is a bad idea as she has a young dependant and her financial struggles are only temporary. She has ceased her job to undertake further study and will be drawing an income again soon.
- You are instructed to prepare a plan for the client on the basis of a cancel and replace strategy. The level of life, TPD and IP will remain the same, but the insurance would be funded via superannuation



# CANCEL AND REPLACE

- A few months later this plan is audited and you are informed that your plan failed the audit because you did not include reference to the innocent three year non-disclosure rule.
- The adviser who signed off on the plan did not check it however, they are arguing the innocent non-disclosure rule does not apply because the client did not have to go through underwriting
- ***Do you agree?***



# EXAMPLE OF REPLACEMENT PRODUCT ADVICE

Superannuation	Existing	Recommended
Provider	ABC	XYX
Account Balance	\$50,041	\$50,041
Admin Fee	0.74% (\$803.90)	0.48% (\$259)
MER	0.70% (\$350.28)	0.58% (\$311)
Trustee Fee	-	0.26% (\$144)
Other (Member fee and Operational Risk Reserve Fee)	0.102%(\$51.25)	0.06% (\$32)
Insurance	\$258.45	\$256.57
Advisor Fee	0.55% (\$297)	0.55% (\$297)
Buy/Sell*	0.10 – 0.38%	\$0
Net Ongoing Costs	<b>\$1,760.88</b>	<b>\$1,299.57</b>

XYZ **does not charge a buy/sell spread**, this is a transactional fee which is applied each time you for example, contribute money to super.

XYZ offers **you direct beneficial ownership** of the underlying investments. This allows you to see what you are invested in at all times - providing you more transparency in line with your objectives.

XYZ ensures **all tax benefits** associated with your account goes directly to you and is not split across other members (direct beneficial ownership)

XYZ is **free of investment rules** that lock you into any given assets. They are able to move your money to wherever they believe will prevent capital loss in line with your objectives.

Your money will be **actively managed** by investment professionals who monitor your portfolio on a daily basis.

You will save **\$461.21** on your total annual fees payable by rolling your super monies into XYZ.



# EXAMPLE OF REPLACEMENT PRODUCT ADVICE

Insurance -		Existing Policy	Recommended Policy
Insurer		ABC	XYZ
Insured Name		Juliette Binoche	Juliette Binoche
Sum Insured	Life	\$350,000	\$350,000
Premium Amount		\$258.45	\$256.57
Premium Frequency		Annual	Annual
Premium Type		Stepped	Stepped
Loadings/Exclusions		Nil	To be determined

## Reasons for Product Replacement

- The premiums for the recommended cover is the cheapest with XYZ

## Other Significant Consequences of Replacing the Product

- There may be restrictions in the new policy.
- You may not receive approval for cover under the new policy.
- The delay before a suicide or trauma claim can be paid may start again.
- The three year innocent non-disclosure will start again.



# EXAMPLE OF REPLACEMENT PRODUCT ADVICE

Death/TPD/Trauma/ Income protection				
		Existing Policies		Recommended Policy
Insurer		OnePath	BT Life Super	OnePath Life Cover and TPD Cover (Any)
Policy Owner		Group Cover	BT Life Super	Super
Sum Insured	Life	\$616,512	\$746,6900	\$1,689,972
	TPD	\$0	\$0	\$1,689,972
	Trauma	\$0	\$0	\$0
	Income Protection	\$9,633	\$0	\$0
Premium Amount		\$370	\$81.72	\$2,828
Premium Type		Quarterly	Monthly	Annually



# SAME INSURANCE WITH DIFFERENT OWNERSHIP

## TABLE ACTIVITY

Donald is 36 and wants life insurance to make sure that his home loan debt of \$250,000 can be repaid and another \$1,000,000 to provide his wife with some income support and funds for her retirement. We have done some product research and decided that *Wish You Well* life cover is the best product option, but we have some ownership decisions to make. If there is no difference in the product, what else should you be thinking about?

Ownership	Super Wrap	Super MasterTrust	Non-Superannuation
Sum Insured	\$1,250,000	\$1,250,000	\$1,250,000
Commission	\$0	\$0	\$0
Premium Frequency	Annual	Annual	Annual
Premium Type	Stepped	Stepped	Stepped
Premium Amount	\$463.23	\$504.69	\$504.69





# WHAT IS THE FRAMEWORK IN YOUR BUSINESS?

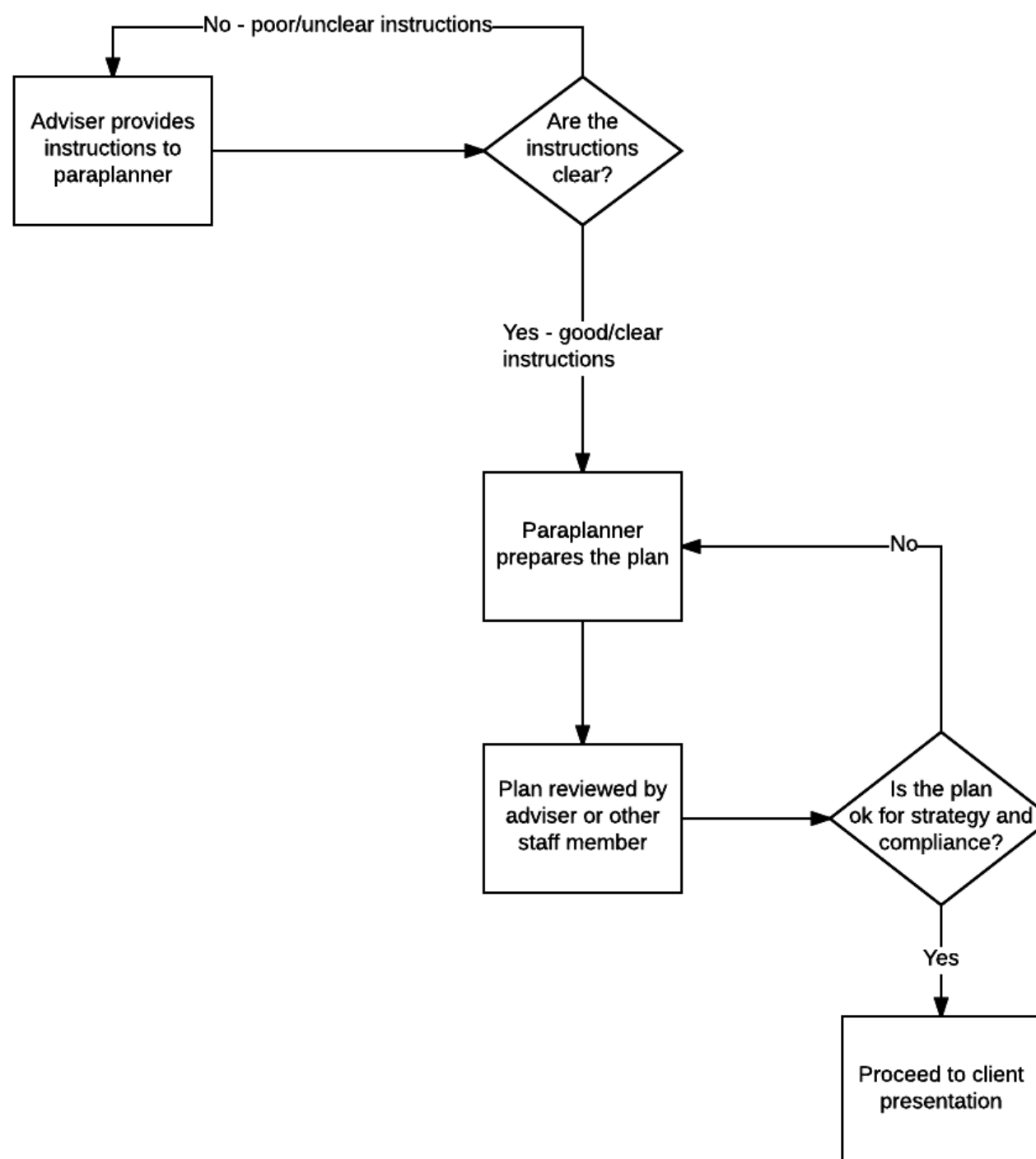
- *Is there a dedicated advice process?*
- *Who is checking that it meets the Corps Act requirements?*



# SUGGESTED FRAMEWORK

## Advice Production Line

1. Everybody has a clearly defined role
2. Everybody, including junior staff, is empowered to push back on advice instructions so poor advice is not produced
3. Advice does not go out unless this process is followed



# FOS DETERMINATION 404494

## INAPPROPRIATE PRODUCT ADVICE

### Key details

- The client was an actor and a businessman with a large amount of assets
- The client alleged the advice to set up an SMSF and link to an MDA was among inappropriate for his circumstances
- FOS found the adviser had breached his s947D obligation
- The client was awarded \$164,000 in compensation



# FOS DETERMINATION 429598

## INAPPROPRIATE PRODUCT ADVICE

### Overview

- Clients approached new adviser (Mr G) for review of insurances
- SMSF establishment recommended to clients, along with investment advice (high risk) for SMSF assets
- No FSG or SOA provided
- Adviser alleges only general advice given
- Applicants claim that they were not seeking this advice and would have retained their previous investments



# FOS DETERMINATION 429598

## Key details

- No reasonable basis
- Advice not appropriate to client's circumstances
- Responsible for losses of \$233,634.05 (plus interest)
- Licensee to pay the losses to the client



# KEY TAKEAWAYS

- **Template are templates** – they should be adapted to suit the client
- Always consider what the **client needs** to know to make an **informed decision**
- Ensure the noted **goals** are in the clients' own words
- Do you have all of the **info you need?**
- If you think the **advice is not suitable**, raise it with the adviser
- Consider having the advice checked over to ensure it aligns with **Corps Act requirements**



# Questions?



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