

## Confront competition from major banks



Independent economist Mathew Jeremy who addressed the AIOFP annual conference (left) pictured with Executive Director Peter Johnston. Mathew Jeremy's report is on Page 2

### THE TIME HAS COME TO TAKE CONTROL

By Peter Johnston, Executive Director

THE CLEAR message that AIOFP members need to take from the 2009 on-shore conference is that the time has come to take control.

Our members need to address new business strategies to confront growing competition from the major banks which have spent the past decade infiltrating our industry to a point where they sought to control assets.

An example of the role the major banks now play is that they are able to influence major decisions on policy, products and investment strategy.

The Banks control the ABA, IFSA and FPA and have major influence in the AFA. The banks control the far majority of our member's remuneration. By sheer weight of subscription fees they heavily influence the research houses and FOS.

With this level of power they also heavily influence the political process through ASIC, ACCC and APRA.

And they have the resources to ride out the PI escalations and the compliance nightmare.

What have we got? We control our practices but too many of us have allowed the banks to influence our clients.

But the banks fell short over the last two years and could not contain the economic catastrophe that caused a not-to-be forgotten plunge in global equities and property markets.

At this time, with markets now in recovery, our industry is facing its most significant commercial, political and cultural overhaul in living memory.

What happens over the coming months is likely to flow from the recommendations that Queensland MP, Bernie Ripoll, will make in the report into the future of the financial services sector which is due to be tabled in Federal Parliament next month.

Mr Ripoll addresses the final session of our conference today and we have an ideal

opportunity to make suggestions on key issues that could lead to a more transparent and consumer friendly level playing field.

Based on feedback from members the three issues we will be presenting are:-

- \* Total transparency at all times with the ultimate ownership of the AFSL the adviser works for on all promotional material.

- \*All practices to operate solvently.

- \*Our fee for service model presented to the Minister and Treasurer last year [including our views on percentage based charging].

If we are ever going to seize some control back NOW is the time to do it. We will never beat them but now is the time for all independents to not fall for the divide and rule tactics practised by the major banks.

We must aggregate our power to seize upon this once in a hundred year window of opportunity.

Our first move is to TAKE CONTROL of our clients and our futures by getting funds under administration and controlling that book of business.

And we should think again about allowing the banks to pay commissions to our members, because politically and strategically it is not a clever situation to be in.

We need to TAKE CONTROL of this fundamental function by dealing directly with the client.

Presentations from numerous 'converted' members over the past few years confirm that it is easier to do than first thought, the clients like it, and the only impediment appears to be in the mind of the adviser.

The remuneration culture is going to change so why not seize the marketing edge with the public and embrace it?

### FOS FLAGS TOUGHER MEASURES

A STERN warning that the Financial Ombudsman plans to take a much stricter role with the investment sector was delivered to members on day two of the Gold Coast conference.

Alison Maynard, head of investments, life insurance and superannuation section of the disputes resolution body, sparked a strong response after telling members they were expected to closely monitor the portfolios of their clients.

The issue arose when she was asked to explain why the Financial Ombudsman Service (FOS) ruled against an adviser over what was deemed as an

alleged breach of an "ongoing arrangement" between an investment adviser to monitor the performance of an individual portfolio of investment products.

Asked how FOS defined an ongoing arrangement, Ms Maynard replied that she was not a financial planner, but advisers who were looking to protect themselves were quite free to put into client agreements what is expected of them.

"You can say we will be looking at this (the portfolio) quarterly or at whatever time is appropriate for both parties," she said, telling members that in her own case she had a service agreement with her financial planner that included words such as ongoing and that she had been given a range of choices about how often the planner would review her portfolio.

#### Keeping abreast

"I don't expect them to be looking at it every day, but I expect them to be keeping abreast of what is happening in the market," she said.

"When there are signals there I expect them to take action. They know what their clients have invested in and what's in their standard portfolios and that they are

continually looking at them.

"That's their job," she said.

During her address Ms Maynard outlined the new terms of reference that FOS plans adopt next January 1 and which are in the process now of being signed off by the Australian Securities and Investments Commission.

Under the proposed arrangements time limits will be imposed on claims by disaffected parties, between two and six years, depending on whether there has been an IDR response.

FOS may under the new arrangements accept claims of up to \$500,000 but generally the monetary limit on all awards will amount to \$280,000 except in the case of investment disputes.

In insurance broking cases, the maximum amount that FOS will award will change to \$150,000. The limits on consequential loss and non financial loss will be \$3000. Figures Ms Maynard also produced showed that the number of disputes registered had snowballed during the past year to 2323 at June 30, up from 1303 during the 12 months from July 1, 2007 to July 30 last year.



FOS investments chief Alison Maynard.

NEW INITIATIVE  
IAN SILK P2

# INDUSTRY FUND LOOKS TO INDEPENDENT PLANNERS

*Ian Silk tells of hopes for a new initiative*



*Ian Silk, Chief Executive of industry funds group Australian Super*



*Having well earned cuppa: Jeremy Dean, Tony Virtue and Jay Pottenger*

INDUSTRY funds group Australian Super is planning a new initiative where its 1.4 million members will be able to seek investment advice from independent planners.

Ian Silk, chief executive with the Melbourne based group, told the conference yesterday his organisation was looking at developing two major projects.

One is increasing the number of members that get investment advice and the other involved how the organisation might tap into the non-aligned adviser market that might want to recommend Australian Super to their clients.

“So we are looking at things like how much will it cost, what should be the price, and how advisers would be paid and whether the cost could be deducted from members accounts,” Mr Silk said.

In his pre-lunchtime address Mr Silk said he hoped to have the new adviser scheme operating sometime within the first half of 2010.

Acknowledging that Australian Super had not previously provided members

with an opportunity to obtain advice from independent sources, Mr Silk told the conference: “This is going to be breaking new ground for industry funds.”

He said the world was changing away from the traditional industry super model and member’s demands were increasing.

They now wanted their super to be mobile and wanted better super at lower cost.

“But we are working on a model where a member will advise us that a fee should be paid from their super account to their independent planner”.

He said that before the initiative can be put in place a whole lot of barriers had to be addressed within his own organisation.

“The important thing I want to convey from Australian Super’s point of view is that we’ve identified this issue (the need for independent advisers).

“I think we will get there...certainly not by the first

of January but within the first half of next calendar year,” said Mr Silk.

Earlier in his address Mr Silk revealed that Australian Super which was set up to attract and service the superannuation needs of low to middle income earners was now attracting funds from high income earners.

“The fastest growing part of our business is people at the high income end because of the low cost structure combined with a pretty good investment returns means that, paradoxically, it is a better vehicle for people with more money in the fund.

“Because you have a - pretty flat annual fee – in our case just \$1.50 a week – and reasonably competitive investment costs and competitive investment performance.

“It is a better vehicle for people with more income than less.”



## MATHEW JEREMY ASSESSES GFC IMPLICATIONS FOR INVESTORS

Within independent economist Mathew Jeremy’s lunchtime address to delegates at the AIOFP conference titled “A Perception on the GFC—Causes and Consequences” were two key propositions. The first was that *returns on equities in coming years are not going to be as good as they were* while the second was *in a world of lower equity returns, super funds will continue to pursue alternative assets such as hedge funds and infrastructure to boost portfolio returns*. The responses and observations to support them are shown here:

### Some implications for investors - 1

**Proposition:** returns on equities in coming years are not going to be as good as they were

**Response:** this seems very likely:

- The world economy will grow more slowly than it did before the GFC - constrained government spending/higher taxes and rebalancing global consumption/savings will all contribute to this
- That means a slower pace of profit growth, while dividends may remain subdued for a while
- Barring speculative P/E expansion, the idea that equities around the world return around 10% pa rather than 20% pa seems reasonable
- But within equities as a whole there will be disparate performance
- We expect Emerging Markets equities to continue to outperform and represent an ever larger share of MSCI ACWI

### Some implications for investors - 2

**Proposition 2:** in a world of lower equity returns, super funds will continue to pursue alternative assets such as hedge funds and infrastructure to boost portfolio returns

**Response:** yes, but be careful

- Interaction of super funds with alternatives is still evolving – hedge funds provide a precedent for infrastructure
- Not everything in a fund of hedge funds is worthwhile and not everything in an infrastructure fund truly fits the bill
- Pre-GFC conditions fostered an environment that *favoured the sellers of these products rather than the buyers*
- GFC has been a shock – many emperors without clothes – but must be taken advantage of to evolve the interaction to the next level
- Both hedge funds and infrastructure, when done well, are important parts of a well-diversified portfolio, but just as hedge funds are harder to assess than equity funds, so infrastructure is an of magnitude more difficult to assess again

## TIME FOR A BREAK!



*Chatting during a break: Chris Houwing and Cherie Headon.*



*Taking time for a break during the busy schedule were (from left) Andrew Hall, Ross Hall, Kym Mariott and Matthew Esler.*

## AIOFP 2009 Gold Coast Conference Agenda

**Today, Friday, 9 October 2009**

- 6.30 am onwards Breakfast served at Relish Restaurant
- 9.00 am Steve Prenderville, Kenyon Prenderville “Current Practice Valuations”
- 9.30 am Brian Knight, Kaplan “Services Going Forward”
- 10.00 am Morning Tea
- 10.15 am Member Session/Resolutions “**AIOFP MEMBERS ONLY**”
- 12.30 pm Working Lunch
- 1.00 pm Lunchtime Guest Speaker: Bernie Ripoll MP
- 3.00 pm Close of Business