



MEDIA RELEASE

GOVERNMENT RESPONSE TO RIPOLL RAISES CONCERNS

Sydney: 26 April, 2010 – The Association of Financial Advisers (AFA) has welcomed the release of the Rudd Government (the Government)'s response to the Parliamentary Joint Committee on Corporations and Financial Services (the Ripoll Report).

AFA CEO, Richard Klipin, said the Ripoll Report was a serious piece of work which the Government has taken seriously. "The Australian community is facing a number of major challenges with an ageing and growing population that is underinsured, under advised and under-funded in their superannuation," he said. "The financial services industry is part of the solution to these issues and the Government has recognised this in their response."

However, whilst the broad thrust of the government's response is sensible, the AFA has major concerns in a number of key areas.

1. Adviser Remuneration Models and Consumer Choice

The AFA has argued consistently that consumers require choice:

- Choice of adviser (aligned, tied, independent, salaried)
- Choice of advice (holistic or specific)
- Choice in the price they pay (the way and the value they derive)
- Choice of pricing model (fees/commissions/hourly rates)

This position is borne out by recent research by CoreData which revealed that consumers want:

- Transparency in their dealings
- Bespoke solutions for their needs
- To see value
- Are happy to pay for advice where they see value
- Payment options that are flexible

Jim Taggart, AFA President said that in banning commissions the Government not only denies consumers the fundamental right to choose how they pay for advice, but goes one step further and dictates how they remunerate their advisers. "It is a major concern that in a free market, the Government should consider it necessary to legislate how any professional in any industry should be remunerated," he said. "What we are seeing is disempowerment of the individual."

Dr Taggart said that in its submission to the Ripoll Inquiry, Treasury made a number of salient points including the need to conduct thorough research prior to introducing any major structural changes in order to avoid a number of unintended consequences. "The AFA echoes Treasury's concerns," he said.

2. All Power to the Regulator

The Government is proposing to add sweeping powers to the regulator to:

- Ban an adviser
- Suspend a licence
- Cancel a licence

“Granting ASIC extended powers effectively sets the regulator up as judge, jury and executioner,” Mr Klipin said. “Where is the presumption of innocence?”

3. Simplified advice (Like RG 200)

The AFA also believes that extending limited advice regulation to non-super not only creates an unlevel playing field but will result in a “dumbing down” of advice. “Most Australians need holistic, comprehensive advice to ensure they have the financial choices in life,” Mr Klipin said. “We believe the regulation will result in poor outcomes for the Australian community.”

Positive Outcomes

The AFA commended the Government on the following outcomes:

- 1. Risk Insurance Commissions:** The decision not to ban commissions on advice relating to risk insurance is sensible. “Any tampering with the current system would only further exacerbate Australia’s under-insurance problem,” Mr Klipin said.
- 2. Fiduciary Duty:** AFA members sign a code of ethics that requires them to “act in their clients best interests”. A fiduciary type duty formalises this requirement
- 3. 2012 Implementation:** A two-year phase in period will help advisers make the required changes

“The transition and repositioning of the advice profession has been occurring since Financial Services Regulation was implemented,” Mr Klipin said. “This report is a further step in the journey towards a trusted profession. The industry, government and consumers are partners in this process as we are all interested in the same outcome - a vibrant, sustainable industry that serves consumers honourably and fairly.”

A more detailed AFA response to the Government’s response is included at Appendix A.

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