



## **MEDIA RELEASE**

### **AFA: GET FOFA BACK ON TRACK**

**SYDNEY: 16 January 2012** – Draft Future of Financial Advice (FoFA) legislation is still failing consumers by not measuring up to its own expectations, according to the Association of Financial Advisers (AFA).

Commenting on the AFA's submission to the Parliamentary Joint Committee on Corporations and Financial Services (the PJC) reviewing the FoFA Bills, AFA CEO, Richard Klipin, said that the FoFA draft legislation, when measured against the twin objectives of improved access for consumers to quality advice and the removal of conflicts of interest, fails miserably on both counts.

"While the AFA supports the Government's objectives, we believe the proposed legislation, as it currently stands, will in fact bring about opposite outcomes," Mr Klipin said. "The introduction of some of the measures proposed, notably opt-in, will impose unnecessarily onerous obligations on the advice industry, hampering their ability to provide timely and effective advice and adding significant costs which will ultimately price ordinary Australians out of advice."

The AFA's submission (number 67) can be found at the following link -

[http://www.aph.gov.au/senate/committee/corporations\\_ctte/future\\_fin\\_advice/submissions.htm](http://www.aph.gov.au/senate/committee/corporations_ctte/future_fin_advice/submissions.htm)

Mr Klipin argued that the cost of opt-in put forward by the Government of \$11 per client was mischievous and neglected the significant practice time required to research, and prepare for key client meetings. "The costs imposed on the industry as a result of opt-in will arise at three levels," Mr Klipin said, "The adviser to client level, the licensee level and the product manufacturer level. At the adviser to client level alone we believe the cost will be significantly north of \$95 per client."

Mr Klipin again called on the Government to provide robust modelling that proves that the proposed legislation can deliver on its promises.

"We believe that the legislation currently on the table is poor – and that's a reflection of poor modelling and poor process," he said. "The proposed legislation has very little in common with the sensible recommendations put forward by the Ripoll Inquiry, which had the general support of the financial services community, and two years on, the eventual

outcome of FoFA still remains unclear. This state of uncertainty is not good enough – it's not good for the industry, it's not good for advisers and it's not good for consumers."

Mr Klipin also said that the Government's prediction that FoFA will result in 40% of advisers losing their jobs spelt decimation of the industry and bad outcomes for consumers.

"In a world where there are fewer advisers and the cost of advice is pushed up, it's difficult to see how the Government sincerely believes that FoFA will improve consumer access to advice," he said.

### **Specific Concerns**

1. Lack of robust modelling – the government must provide modelling which proves that FOFA legislation will fulfil its strategic intent
2. Insurance Remuneration – the government has created confusion with different insurance remuneration arrangements for inside and outside superannuation. This confusion will ultimately affect the take-up of insurance in an already dramatically under-insured population
3. Opt In – opt in will add three levels of costs: at the adviser to client level, the licensee level and the product manufacturer level. This will price advice out of the reach of many ordinary consumers
4. Projected loss of jobs for 6,800 advisers (as noted in the Tranche 1 Explanatory Memorandum – 13 October 2011) + staff + clients + communities – the costs to small business advice practices of implementing changes associated with FOFA will force many out of business resulting in tens of thousands of job losses. The market will be concentrated and consumers will have fewer choices in where they access advice.
5. Lots of devil in the detail – the legislation as it currently stands is complicated and confusing for both consumers and the advice profession.
6. Best interests duty – while the principle is sound, the AFA believes the devil will be in the detail. A best interests duty may also increase the cost of professional indemnity insurance.
7. Start date of July 2012 is unworkable – implementation will take a considerable investment of time, energy and money

**ends**

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### **About the AFA**

The Association of Financial Advisers (AFA) is the longest running professional financial adviser organisation in Australia and its members have been providing trusted advice to consumers for 65 years. The AFA celebrates its diamond anniversary this year. Through individual memberships and relationships with licensees, the AFA represents over 7,000 members. These members offer a broad range of financial advice services to ordinary Australians with many having specific expertise in risk protection. The AFA aims to provide a robust united voice for all financial advisers and their clients, continually improve practices and to focus firmly on the exciting, dynamic future of the financial advice profession. With six and a half decades' success, the Association's ongoing relevance is due to its philosophy of providing leadership and direction to advisers and their clients. It is an association run by advisers for advisers - this means advisers set the agenda, decide which issues to tackle and shape the organisation's strategic plan.

**Ends**