

Q&A

What are the issues for rolling out a fee-based pricing model, given the FOFA reforms are yet to be finalised?

To answer this question, DANTE DE GORI gives an update on the current status of the Future of Financial Advice (FOFA) reforms and when the detail of the legislation might be confirmed, while SUE VISKOVIC provides a plan of action in the face of uncertainty.

DANTE DE GORI
GENERAL MANAGER, POLICY AND GOVERNMENT RELATIONS, FPA

THE better part of 2010 was spent debating (sometimes heated, always passionate) and consulting on the announced FOFA reforms – in the midst of an historic election outcome, the emergence of the Independents and the Greens as a political force and a ministerial reshuffle. Out went the Hon. Chris Bowen MP and in stepped the Hon. Bill Shorten MP, and it must be said it has been a relatively smooth transition, especially with regard to the consultation process.

It was made clear that the Minister sees his role as implementing the reforms rather than rescinding them, which is consistent with the message from Treasury – that they are tasked with the detail of how to implement the reforms and not the responsibility of setting them.

This does not mean policy cannot be amended or changed, but rather it has been made more

difficult to do so. As a result the industry, and in particular, financial planners, should not be making decisions on the basis that the package of reforms might now change. The fact is the majority of the reforms will not, and we should all be preparing for the legislation of these reforms from 1 July 2012. In particular, the reforms regarding the banning of commissions and other conflicted remuneration structures mean that you should continue with the process of transitioning to fee-for-service for your business.

The timeline of events below (see diagram) provides a brief guide to what lies ahead for 2011.

The peak consultation group meetings will continue monthly and the consultation will expand to insurance commissions, accounting exemption, disclosure, wholesale and retail definitions and the retail compensation scheme. This will continue until Treasury is satisfied that it has enough information and answers to draft appropriate legislation in early 2011.

Of course the FOFA legislation will need to be passed through the House of Representatives under the current minority government, and then through a new Senate from 1 July. This will make things more interesting, as the industry continues to look for avenues to influence the detail of the legislation.

We are heading into a critical stage of the consultation process and unless there are some serious changes to policy positions – such as that of opt-in, for example – details will be required to deliver these policy positions. The FPA is still concerned with the opt-in proposal and is working on all fronts to make sure the reforms are delivered with the best possible outcomes both for consumers and for financial planners.

Financial planners want to be able to deliver more affordable advice to more Australians, but imposing more regulatory burden without considering all the impacts is inappropriate and counterproductive.

It is evident that planners and the industry are looking on one hand at the impact the reforms will have on business models – especially the revenue impact – and this is only natural. On the other hand, there is a genuine interest and support for transitioning from remuneration models that are conflicted and I would encourage you to continue your transition to fee-for-service.

SUE VISKOVIC
MANAGING DIRECTOR, ELIXIR CONSULTING

DESPITE the fact that there are a few details yet to be confirmed, on the whole we know that by July 2012, it will be illegal to place a client into an investment product and receive commission from the product provider.

Do not underestimate the length of time it will take to undertake this transition. Consider the following actions that will occur in the process:

1. Planners need to select and then 'emotionally connect' with the style of fee structure they will implement (flat fees, asset-based, hourly rates or a hybrid model).
2. Segmented service offerings need to be articulated (sometimes created). Often this will entail the creation of documentation and supporting materials.
3. Structured processes need to be created (or refined) to deliver upon the service offerings.
4. Some science must be applied to understand the cost to deliver each task in the business, including an appropriate profit margin.
5. Minimum fees must be derived, and then a method of how to apply the fee structure in any given client situation.
6. Advisers and staff need to be trained and rehearse how to communicate and 'sell' the new fee to clients – both existing and new. Adviser confidence will be one of the largest drivers of

TIMELINE OF EVENTS FOR 2011



