

# Transition Q&A

This month SUE VISKOVIC and DANTE DE GORI answer your questions on how to communicate change to clients, and the future handling of commissions.

**Question: How do I tell my client about the change? I am worried that I will lose credibility with my clients as I have always charged via commission and told my clients that this was the best way for them to pay. Now I have to tell them we need to change the way we charge, will they still trust me?**

**Sue Viskovic:** Here are a couple of examples of conversations you might use:

1. "You may have read that there are some changes occurring in the financial planning industry. Until now, most financial planners have been paid by way of commission, but unfortunately there have been a small minority that have abused the trusted position that we hold. As you know, we have always provided advice in your best interests, and quality advice and client value are extremely important to us, but nonetheless, we cannot deny that changes are coming. We have decided to get on the front foot, so to speak, and ensure that none of our clients are disadvantaged by the changes that will be enforced in 2012, and so we are taking the proactive stance of moving our advice to a fee-for-service model. What does this mean to you? You can continue to be confident that we will always place your interests first, and that our advice will always be designed to assist you to achieve your objectives, as our fees will be the same, regardless of what products we recommend to you. It will also mean that we will be ahead of legislative changes, and protect our business so that we can still be here to assist you towards your goals in two, five, and 10 years' time."

2. "We have an image problem in our profession – unfortunately there have been a small minority of unscrupulous advisers that have taken advantage of the trusted position we hold, and have damaged the reputation of all financial planners. We are really concerned that too many people miss out on receiving sound financial advice that can really make a difference in their lives, because journalists, industry funds, and shock jocks all like to paint financial planners in a negative light.

"We really want to ensure that more people seek our advice so that we can help them like we have helped you. So as a profession, we are continually raising the bar as to the education levels, quality of advice, and stamping out any potential for conflicts of interest. One of the changes that we are embracing is to eliminate commissions paid to advisers. As you know, until now, we have collected our fees for our advice by way of commissions from product providers, and as much as we have always provided advice in your best interests, we can see that there is potential for people to consider that commissions might influence our advice. So it is a great thing that as an industry, we are moving toward fees that are client-focused, rather than product-focused. The government is following our industry lead by banning commissions from 2012, but we are excited to be able to adjust our structure now, and remove fodder for the media to continue adviser-bashing."

What I would counsel you not to do is play the victim and tell your clients that you are being forced to do this by the government, as this type of conversation is more likely to erode trust than the change itself – and you will be validating the stereotype that the media and industry super funds like to portray. As much as you may have resisted this change in the past, and indeed may still feel begrudged at being forced to do so, make sure you come to terms with it before explaining it to your clients, and see this for what it is – a great opportunity for us to remove ammunition from our detractors and perhaps, our profession will finally begin to receive the respect it deserves.

*Sue Viskovic is the managing director of Elixir Consulting and author of 'Pricing Advice – creating the right fee model for your financial planning business'. Please note these opinions are of the author only, and do not necessarily represent the view of the FPA.*

**Question: Can you confirm that the banning of commissions is not retrospective?**

**Dante De Gori:** The reforms as they have been announced will not apply to existing contracts and any contracts that are in place before 1 July 2012. It is a prospective ban rather than a retrospective ban. This means that any existing contract where the planner has a right to receive a trail commission will continue after 1 July 2012. However, it is important to remember that your professional obligation to provide a service for this trail commission will not change. This process will also apply to the proposed annual 'opt in' arrangements, that is, it will not apply to existing client contracts that are in place before 1 July 2012. Therefore opt in will only apply to new clients, meaning that you will potentially have to administer the renewal process differently for clients that you have before and after 1 July 2012.

In short, the reforms in relation to the ban on commissions and opt in do not apply to existing contracts. The reforms apply to any new contract from 1 July 2012, that is new customers into new products and new customers into existing products.

**Question: One concern I have is that when commissions are turned off, fund managers will take this as an opportunity to increase their take from the investments. For example, investing in a well-known Australian Share Fund via a simple master trust currently has a management expense ratio (MER) of 1.82 per cent per annum and the commission payable is 0.6 per cent. How can we be certain that the new product offered will be at an MER of 1.22 per cent per annum, which would truly reflect the turning off of commissions?**

**Dante De Gori:** This is an issue that we will be following very carefully. It is our belief that for the Future of Financial Advice reforms to work appropriately the removal of commissions from the product costs must be passed onto the consumer, otherwise the consumer will indeed be paying more from 1 July 2012 and the reforms will not be achieving their objective. ♦

*Dante De Gori is general manager, policy and government relations, FPA.*

If you have questions regarding transitioning, please submit them via the Transition section of the FPA website at [www.fpa.asn.au](http://www.fpa.asn.au).