

## Media Release

### The grandfathered commission debate needs to be fair and balanced

**Tuesday May 15, 2018.** Connect Financial Service Brokers (Connect) CEO Paul Tynan says that it is too simple to say that all old products are outdated and not in the best interest of the clients. There are many different issues regarding legacy products that need to be reviewed before transferring or recommending a client transfer to a new product.

Problems could include:

- Taxation and social security impacts
- underwriting and insurance issues
- withdrawal penalties
- legal concerns
- estate planning issues

Commenting further, Paul Tynan said, “The trail commissions on these legacy products were incorporated into their design to remunerate the adviser for their advice - it was not part of an ongoing advice arrangement”.

“What has caused many of the bad advice practices being highlighted at the Royal Commission has been driven by industry business models and product providers who have caused a misalignment between planners’ advice and clients’ best interest”.

This has been allowed by successive governments, ASIC and institutions because of the honey pot of superannuation.

FoFA brought the planners and clients interest into alignment; however, ASIC and government continue to only listen to the failed captains of industry who put flawed business structures in place to serve their own self-interest. For example: **Vertical Integration; Buyer of Last Resort (BoLR) and Dealership Licensing.**

These three practices have been responsible for driving a wedge between clients and advisers.

“Don’t blame advisers for trail commissions when they were a part of the product design and the only product available to satisfy client needs. Trail brokerage in these products did not constitute an ongoing service arrangement!”, added Paul Tynan.

“Legacy products are not a new issue but they will continue to be a huge problem going forward as technology moves faster than regulatory and business models”.

“Banning commission retrospectively fails to acknowledge that individual advisers have borrowed to acquire businesses and client registers to underpin commercial expansion on the assumption that trail commissions would be continued to be paid for the life of the individual policies”.

If the product manufacturers want to ban grandfathering, are they going to:

1. Buy back the trail commission from the adviser at a commercial market value
2. Pass on the trail commission value back to the clients
3. Help advisers facilitate the transfer to new products which would require a case by case evaluation and to undertake this task would require contacting and discussing the matter with each and every single client, issuing a SoA and so on.

Paul Tynan concluded, “Advisers have worked in this industry in good faith for decades recommending products to protect the financial aspirations and concerns of Australian consumers”.

“In addition, they have built their advisory businesses, employed staff and contributed to their communities and national economy based on the products that they were authorised to market and allowed to use in good faith”.

“The ramifications of banning grandfathered commission retrospectively and resultant loss of faith and confidence in the financial services industry, institutions and government is a cost far greater than any benefit derived from this action”.

**ENDS**

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