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Media Release

Tynan reviews financial year – consumer continues to be unintended short term casualty in battle for advice

Thursday June 12, 2014. Connect Financial Service Brokers (Connect) CEO Paul Tynan has reflected on the 2014 fiscal year and the financial services sector and described the past 12 months as one of continuing evolution that will result in a future of consolidated advice driven by regulation, vertical integration and the need to control Australia's ever expending retirement assets.

Looking back at the financial year, Tynan says that it's no surprise that as a consequence of the Future of Financial Advice (FoFA) reforms and the ongoing financial system inquiry that consolidation of financial planning practices which are institutionally owed has been one of the major outcomes.

Another observation by Tynan is the continuing contest for ownership of Australia's superannuation assets and as a consequence what has emerged in the advice space is that the larger institutions (banks, industry funds) are more comfortable working within the area of general advice. Yet at the same time, individually owned financial planning practices have become more focused on providing personal advice.

The unfortunate and unintended casualty in this struggle has been the consumer who has become an afterthought and as a result, this has led to confusion, lack of choice and institutions dominating advice distribution.

According to Tynan, the cost of advice will see the industry split into two sectors:

1. The affordable sector (non-aligned) – which will be serviced by financial advisers providing personal holistic high touch advice.

2. The non-affordable sector (aligned) – serviced by the banks, direct and industry funds providing personal advice using proprietary product.

The accounting profession has never really embraced financial planning says Tynan, "However as they see their core disciplines (namely tax and compliance) come under closer review from the regulators and need to obtain licensing for SMSF advice, they are going to be forced to renew their qualifications to protect revenue and clients".

"One personal observation of the accounting and financial planning industry over the past ten years is that I find that the majority of financial planners hold more tertiary qualifications than accountants…now that might shock some accountants and industry bodies".

The move to fee for service for advice will continue the trend of accounting and financial planning businesses joining together to form new business models.

The Australian superannuation system now has $1.8 trillion in assets and is playing a more active role in corporate and industry policy decision making.

"I only wish that government authorities would appoint to their boards, industry people with real business familiarity to provide all important input, especially in the area of advice. To be taken seriously, management in the superannuation industry, fund management and industry funds should at the very least have had some experience sitting in front of a client or running a self employed planning practice if they are to give commentary about advice or dispensing lectures to the industry."

The industry funds have over the past decade run a very clever marketing campaign against commissions (higher fees means less retirement benefits). However this simplistic message does have a buyer beware warning – *lower costs do not always lead to greater benefits*!

Industry funds in the next few years will have a huge task to implement advice into their service provision models.

Tynan added, "It's no wonder that the consumer's voice in this environment has responded by seeking more independence and greater self-reliance reflected in the growth of self-managed super funds that today represent a third of all super assets".

With the increase in life expectancy and the age pension now being the largest single cost to the Federal budget everything now must enter political circus – how do we balance revenue and costs to continue to deliver a retirement income for all Australians?

Tynan concluded, "In this environment the Baby Boomer accountants and financial advisers have built substantial businesses and are looking to capitalise their lifetime of work and move into retirement. However succession planning has never been more difficult due to regulatory changes, lack of capital, growing uncertainty and the new generation of employees and prospective buyers having different priorities and changed views on ownership".

"However, it's not all gloom and doom as I have never seen so much organic growth opportunities that present itself to the Australian advice industry. The future will see increased demand for high quality and trusted face-to-face advice as the institutions focus on direct consumer distribution".

"In addition, technology is a great leveller and smaller businesses will be able to respond far quicker to changes in consumer expectations/demands, legislative and investment opportunities than larger businesses – I would not like to be anywhere else. Maybe retired!"

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