

Counting the cost of change

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There are expected to be fewer financial planners as a result of the Future of Financial Advice (FOFA) reforms but what sort of future can a financial adviser expect outside the industry?

The freewheeling entrepreneurs who pioneered Australia's financial advisory industry amid the 1980s deregulatory mania were left unfettered for a remarkably long time.

It was not until the advent of the Financial Services Reform Act (FSR), first proposed in the late 1990s and passed into law in 2001, that legislators imposed any serious restraints on the behaviour of financial planners.

The decade-long road from FSR to FOFA, potholed by a series of financial crises and industry scandals, has been a bumpy ride for the industry.

But if the FOFA changes mark the regulatory terminus for financial planning, they also signal journey's end for many industry participants.

The FOFA rules, released in draft legislation form this September and due to take effect in July 2012, upend many established financial planning practices and render some business models obsolete.

By banning all forms of "conflicted remuneration", including commissions on investment products, the FOFA reforms threaten the viability of financial planning businesses predicated on trailing commissions and "volume rebates" from fund managers.

The industry also fought a final losing battle against the FOFA "opt-in" directive that requires financial planners to seek written consent from each of their clients every two years to keep charging fees. For some financial advisers, "opt in" may be the final nudge to opt out of the industry.

As a joint report by the body representing fund managers, the Financial Services Council (FSC) and accounting firm PwC noted in August: "Most chief executives anticipate a reduction in the number of independent advisers and licensees (due primarily to the burden of increased [FOFA] regulation, in addition to the ageing of the financial planning cohort)."

There is already evidence that the FOFA changes, at the very least, have sparked consolidation in the financial planning universe.

Notably, the proposed sale of the previously staunchly independent financial advisory group Count Financial to the Commonwealth Bank has been attributed by its founder, Barry Lambert, to the FOFA reforms.

The changes may offer a convenient excuse for industry old-timers to cash in while prices are still holding up but the reforms are also causing some younger planners to question their future in the industry.

Association of Financial Advisers (AFA) president Brad Fox says the new rules undoubtedly will push experienced but relatively youthful advisers out of the business.

In fact, Fox, who runs his own Melbourne-based advice practice, says the FOFA reforms may spur older advisers to serve out a few extra years in the industry.

He says practice values have been driven down by the changes to such an extent that planners nearing retirement may choose to “soft close” their businesses – servicing only existing clients – rather than chasing more.

Old rules that will continue to apply in the FOFA changes mean advisers could be collecting on their legacy books for a while yet.

But planners midway through their careers have some tough choices to make, Fox says.

“In the past few weeks, three advisers, all aged between 30 to 40, have said to me it would be easier to sell out than keep going under FOFA,” he says. “That’s worrying.”

Fox says the transition to a new career will be easier for some advisers than others.

For example, he says, accountants who also dabbled in financial planning may simply return to pure accountancy after the reforms are put in place. Or risk specialists who are more sales-based advisers might find a comfortable role selling mortgages.

“But if you’re a holistic financial planner – where your business is relational not transactional – it’s hardest to know where you would go next,” Fox says.

“There’s a lot of satisfaction in being involved in the financial lives of clients over sometimes multi-decade time frames – what other job can give you that?”

Financial Recruitment Group NSW state manager Conor Donoghue says financial planners have a number of skills that are easily transferable across industries.

Like Fox, though, Donoghue also says there’s a wide variance between adviser types. “Salaried financial planners in a bank would have different skills to independent financial advisers,” he says.

In general, however, Donoghue says financial advisers do share some characteristics, including: Strong relationship management skills; empathetic selling abilities; varying levels of technical competence and consultative skills.

He says self-employed advisers could also claim skills in areas such as business planning, people management and leadership.

According to Donoghue, those skills particularly open career opportunities for advisers in many other parts of the financial services industry “supply chain” away from the client front line.

“Advisers who sell up can also look at careers within financial planning businesses like practice development, professional standards and financial planner management,” he says.

Donoghue admits the FOFA changes have prompted many advisers to rethink their careers but he says most will stick it out.

“For most financial advisers, it is a calling,” he says. “But they’ve had a lot thrown at them over the past few years and for some it will be all too hard.”