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ASIC research concludes over one third of financial advisers give poor advice!

Each year, the Australian Securities and Investment Commission (ASIC) conduct a shadow shopping exercise on the quality of financial planning and retirement advice. This year's version, *Report 279 Shadow shopping study of financial advice* concluded that over 39% of the advice examples were of poor quality while at the same time 86% of the participants felt they had received good quality advice

ASIC regarded advice as poor if it lacked taking into account the client personal circumstances by being overly product focused and not strategic enough to help clients develop a realistic and achievable plan for their retirement .

The following issues were common in the advice ASIC graded as poor or inadequate:

- Inaccurate or inadequate investigation of the client's personal circumstances
- Recommended strategies did not address the client's needs or objectives – this included the failure of advisers to address areas that didn't directly involve the sale of investment products.
- Conflicted remuneration structures, such as product commissions and percentage asset-based fees, impacting on the advice and recommendations, and on the quality of advice.
- Poor scoping of advice – 50% of all advice examples which were confined to a particular topic or need, did not limit that advice adequately.
- Failing to provide appropriate justification for switching recommendations – sometimes the features that the client would lose as a result of changing products were not disclosed. In other instances the 'benefits' of the new product were not compared or useful for the client.
- Poor communication in the Statement of Advice (SOA) by using generic information that was irrelevant, while some of the SOA was not explained verbally, but sends by the mail.
- Errors in statement of assets and liabilities and missing cash flow projections to show how the strategies reaches the clients retirement objectives
- Failure to consider the clients life expectancy and how long the client's money would last in retirement.

Mick Steffan, one of the 5 Certified Financial Planner Professionals operating in Geraldton and director of Indian Ocean Financial Services, was asked to comment on ASIC's results:

It's amazing how everyone is always talking about how well they do with their investments and saving tax, but you never hear those that are losing money due to poor advice!

"There are too many people are being ripped off with poor advice, no service and excessive commissions because they stick with the same adviser year after year and are too scared to take action. Each time I go to a barbeque or social gathering I hear the same again and again: I have not

heard from my financial adviser for more than a year or why are all my investment solutions coming from the same financial institution?

Mick's recommendation to those people is to review their adviser and look for a new adviser if you can answer **no** to any of the following questions:

Is/ has your adviser:

1. A Certified Financial Planner Professional (CFP)
2. More than 10 years of experience
3. Charging an hourly rate for all your advice?
4. Independent from any financial institution (bank or insurance company)?
5. Allowed to give full taxation advice within their financial planning recommendations?
6. Able to give advice on your work superannuation fund?

For more information that may assist in getting better advice download the ASIC "Getting Advice" booklet from www.ifswa.com.au or contact Mick Steffan on 08-9950 0349 for a free copy.

Disclosure:

Mick Steffan is a Certified Financial Planner Professional and Registered Australian Taxation Agent and is an authorised representative of Lionsgate Financial Group, AFSL 342766, a licensee which is independent from any bank or insurance company. For more information please visit:

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