Shopping for advice

At different times of life different things tick the truly important box.

For a 20-something it may be their first car, an overseas holiday or a first home.

For a 60-something with the retirement line looming into sight, getting good financial advice can move from the helpful to the urgent list in a short space of time.

This week the Australian Securities and Investments Commission (ASIC) released its latest shadow shopper survey and it focused on the area of retirement advice.

Financial advice can be useful at most stages of life but as you near retirement it is critical that you get good advice because the impact of bad advice can be devastating as you may have little time to recover life savings – just ask clients of Storm Financial.

It is also arguably the most complex of planning exercises. You have to deal with tax and social security issues, your superannuation's investment strategies and a host of risks you have probably never seriously had to contemplate before.

As the first of the baby boomer generation are now retiring, the demand for retirement advice will continue to rise and it is in everyone's interest – both government and individual – that the advice is of the highest possible standard.

ASIC recruited people aged between 50 and 69 years of age who were intending to seek retirement advice or had already sought advice in the past 15 months.

So they were real consumers with total assets around $800,000 (including home and super) who went through the process of selecting a financial planner and receiving the service that the selected firm offered.

The breakdown of advice firms in the study was: 45 percent bank-owned; 17 percent independently owned;20 percent super fund owned; and 17 percent owned by another financial services conglomerate.

In total 64 examples of retirement advice were analysed.

Sadly the headlines of the report card of the shadow shopping exercise are not that flattering for the financial planning industry.

The good news is that 58 percent of the advice reviewed was scored "adequate",while 39 percent was marked "poor" but only 3 percent achieved the highest possible "good quality" rating.

Doubtless this study will serve as a useful benchmark to assess how effective the wide range of regulatory changes advisers are having to deal with under the Government's Future of Financial Advice reforms. The FOFA reforms include things like the banning of commissions and other payments that have the potential to distort advice recommendations with the aim of lifting the standard over time.

Certainly this study supports the move to ban certain types of payments and make fee disclosure more transparent. The ASIC report says in some cases "when adviser's remuneration was tied to product recommendations, they tended to focus less on strategic non-product related areas where clients would benefit". The advice given was often legally compliant but ASIC believes the conflicts of interest discouraged advisers from doing the extra work required that would have resulted in a good rather than adequate rating.

The criticisms will no doubt have advisers studying the report – as well they should. But for investors about to embark on the task of finding a financial adviser this report is also valuable reading – for two different reasons.

First you may think having read this far that the 64 investors involved in the study would have rated the financial planners that advised them poorly.

Far from it.

The vast majority of participants – 86 percent - felt they had received good quality advice and 81 percent said they trusted the advice they received "a lot".

This points to just how hard it is for investors to assess and judge the advice they receive. The study also underscores why disclosure on its own does not work.

In one case the ASIC study says while the Statement of Advice explained how paying lower superannuation fees can lead to a higher retirement balance. It then went on to show that the product advice would leave the client worse off by tens of thousands of dollars.

Despite the clear disclosure ASIC learned through follow-up interviews that the client rated the advice and adviser highly and implemented most of the recommendations.

The second – and more valuable - reason to invest the time reading this shadow shopper study is because it contains a constructive attempt by ASIC to define what good advice actually is.

Strategic advice was a key factor in the ASIC gradings and the 25 cases of poor advice all involved poor strategic advice. In ASIC's view product recommendations should follow, not direct, the suggested strategies.

The ASIC study points to the need for higher professional standards and better ways that advisers with higher qualifications and better skills can be more easily identified by consumers.

Finding a good adviser should be by design – not chance.

By Robin Bowerman (Vanguard Investments) 30/03/12
Westmount Securities Pty Ltd AFSL 225715