FPA board backs remuneration policy

Written by: Victoria Papandrea

The FPA board has endorsed the association's remuneration policy to move away from commission-based fees for financial planning advice by 1 July 2012.

FPA chief executive Jo-Anne Bloch said the association was now looking forward to putting the policy in place.

"This is an historic decision by the FPA and shows how our members lead the way in the financial services sector," Bloch said.

"Members on both sides of the debate have made substantive contributions that have enabled the FPA to finalise the policy and ensure efficient implementation of these principles."

The FPA had also established a transition committee to assist members with guidelines, tools and information to ensure a smooth shift to client-directed fee payments for every practice, she said.

"The FPA wants to encourage members to adopt these remuneration practices as soon as their business is ready," she said.

She also outlined that risk products, rebates and related payments would not be within the scope of the remuneration policy at this point in time.

As a result, the FPA has set up a member working group to progress appropriate remuneration principles for risk products, as well as a working group to determine how corporate superannuation will be implemented.

Both taskforces are expected to report to the FPA by early 2010.

The FPA received more than 250 responses to its financial planner remuneration consultation paper released in May this year, which assisted the board in developing the revised policy. «

Practices look for revenue up value chain

Written by: Wouter Klijn

More financial planning practices are looking to attract additional revenue by providing administration, compliance and investment services alongside their existing advice offering.

"We've seen in the last 12 months [that] there is a transition among established practices to look at getting more of the administration revenue as part of the service functions and more of the investment management piece," Centurion Market Makers director Wayne Marsh said.

This development started a few years ago when software became available that enabled practices to take over tasks previously run by fund managers and dealer groups, but it had gained momentum in the past year, Marsh said.

"I guess everybody sat back post recession and reflected back on their models," he said.

A practice that has gone down this route is financial advisory firm the Bailey Roberts Group.

The firm has developed its own software system that enables direct portfolio management, and even has an in-house analyst to provide stock research.

The initial reason for adopting this so-called 'horizontally integrated' model was to address the mismatch between a client's expectations and the services delivered by a financial adviser.

"Our customers come to our firm because they want us to be the gatekeeper of their wealth," Bailey Roberts Group principal Ian Bailey said.

"Putting money with managed funds ... became an unpalatable thing with my own thoughts on what the client expectations are."

As a result of the financial crisis and the expected changes in regulations, more practices would embrace the model, Bailey said.

Although Premium Wealth Management has not switched to this model, the firm's chief executive Chris Saunders confirmed the trend.

"That is exactly what is happening in AFSL (Australian financial services licence)-land," Saunders said.

"There is a thematic shift into direct equities, because of the way managed funds have preformed, transparency in fees, efficiencies within the individual planning practices and tax implications."

He said the development had also increased the demand for separately managed account (SMA) services.

"Many institutions own a platform, [but] other dealer groups have not had this luxury and hence have been renting platforms. What you see now is a growth in that SMA, IMA (individually managed account) market, where some of those boutique-style financial planning businesses are going straight to the technologists to establish their desired platform with their fee structure," he said.

Premium did not rule out it would implement such a model at some stage.

"There has been a trend towards exploring the opportunities with these style of providers, so like with any other AFSL we are considering our options," Saunders said. «

IFSA pushes for prudential changes

Written by: Alice Uribe

The Investment and Financial Services Association (IFSA) has called for changes to superannuation funds' prudential requirements in its submission to the first phase of the Cooper superannuation review.

"The current capital and liquidity requirements of superannuation funds are inadequate. Confidence of fund members and the safety of their retirement savings are fundamental to securing and protecting the superannuation system," IFSA chief executive John Brogden said.

In its submission, IFSA called for new liquidity and pricing standards for superannuation funds.

"The minimum capital requirement for a superannuation fund was set in 1993 at $5 million. This is ludicrous for a savings pool of over $1 trillion in 2009," Brogden said.

"Funds can be severely stress tested as we have recently seen when market cycles are on a downward trend. Consequently, IFSA recommends that illiquid funds or investment options be defined as those holding 20 per cent or more in illiquid assets."

IFSA also recommended that illiquid assets should be valued at least every 12 months and illiquid funds should be required to align their redemption and valuation process to preserve equity and guard against arbitrage.

The association is also pushing for the adoption of daily unit pricing for the entire sector.

Brogden said all IFSA members currently participated in daily unit pricing and many industry funds were also making the move away from crediting rates.

"Unit pricing ensures equity between all investors and provides them with certainty and confidence that their balance reflects the actual market price on their fund's assets," he said. «