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MONEY PLANNING & BUDGETING FINANCIAL PLANNERS

New client-driven financial advice model gathers momentum

By **Emily Chantiri**
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In the wake of the Hayne royal commission, where many financial advisors were found to have failed to act in the best interests of their clients, trust in the advice industry has collapsed.

In a fast-changing landscape, many clients are no longer happy to pay for complex advice that can often cost several thousand dollars and are demanding the introduction of a fee-for-service or hourly rate business model.

The advice industry is transitioning towards more of a fee-for-service business model as cheaper robo-advice turns up the heat on traditional services.

The industry is also under attack from much cheaper robo-advice – online technology that provides access to advice via the use of algorithms to automatically perform investment tasks.

The World Bank expects robo-advice to continue to grow exponentially at an average annual growth rate of 31 per cent to reach almost US$1.5 trillion of fund under management globally by 2023.

While this may help savvy technology driven individuals to achieve their investment goals, Dante De Gori, chief executive of the Financial Planning Association of Australia (FPA), says traditional financial advisers will continue to perform an essential service.

Automated products do not have a personal understanding of clients and their goals, or what they want to achieve, he says.

'Great tools'

“They are great tools which good financial planners are integrating into their processes to create cost-effective advice for their clients,” De Gori says.

Nearing retirement, Sydneysider Richard Tainsh has been reluctant to visit a financial planner. He says he would be more open to the idea if advisers offered hourly rates, instead of the likely several thousand dollars for a comprehensive plan that he may not want or need.

Like many Australians, much of Tainsh's wealth is locked up in superannuation. He also owns two investment properties.

At one point, he contemplated whether to sell his properties and needed some general advice.

“Financial planners should be able to give this advice without insisting the client pay for an expensive plan upfront,” he says.

“I’ve found that accountants can often help, even though they will preface any comments by saying, 'I’m not authorised to provide anything but general advice',” he says.

“We pay hourly rates for services like this, so why not the same for a financial planner?”

The financial advice industry suffered the biggest fallout from the royal commission. The major banks have pulled out, grandfathered commissions have been banned and a code of ethics has been introduced.

De Gori understands that a new model for advice must evolve.

“Consumers now want to know they are working with a professional they can trust, on their terms and pay for it in a flexible, transparent way,” he says.

“We are already seeing some planners transition their businesses to a fee-for-service model, and making efficiency gains by increasing their use of technology,” he says.

De Gori said the FPA have been reviewing the provision to clients of the traditional Statement of Advice (SOA) with fresh eyes, re-assessing its purpose and how it can be improved.

“It’s about providing advice to clients the way they want it,” he says.

Greg Cook, chief executive of Eureka Whittaker Macnaught and a financial planner for almost 30 years, has seen four major changes – the Financial Services Reform Amendment in 2003, the Future of Financial Advice changes in 2013, Financial Advisers Standards and Ethics and now the Royal Commission – leading to the current licensing practice.

“The latest reforms will require planners to acquire greater degrees of qualifications," Cook says.

"This will help minimise the public’s perception of receiving unprofessional advice."

However, Cook believes it is unrealistic for planners to provide clients with often complex advice under a fees-for-service model in just an hour or two.

“Everyone has different objectives, including tax planning, family and business situations, so one-off, while-you-wait advice isn’t feasible,” he says.

As for robo-advice, Cook agrees that the tools can help people to make better financial decisions.
However, he says there will always be an important role for a "living, breathing adviser. "