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Senate report doesn't go far enough to protect consumers

Sydney, Australia (July 3, 2014) – Australian investors have inferior protection from poor investment advice compared to their peers around the world. That situation won't change any time soon, despite the findings of a Senate report into the performance of the ASIC, according to Paul Resnik, co-founder of FinaMetrica.

"Of the 61 recommendations made by the Senate Economic References Committee, not one goes to quality of advice and the suitability of recommendations to the needs and circumstances of clients," Mr Resnik said.

"While there are several references to work undertaken by the Financial Conduct Authority (FCA) in the UK, none were related to investment suitability. The UK regulator has very clear suitability guidelines, virtually none of which can be found in Australian regulations," said Mr Resnik.

"Investment suitability involves the matching of products and services to meet the specific needs of clients. This requires advisers to thoroughly understand the needs of investors, their risk tolerance, circumstances, capacity for loss and the investment products available.

"The application of FinaMetrica's Five Suitability Proofs, which is the generic summary of world's best practice, would have diminished the likelihood of Commonwealth Financial Planning (CFP) malpractices considerably," said Mr Resnik.

The Five Proofs are steps advisers should go through to produce good financial advice. They are:

1. **Prove** you know the clients' circumstances, needs and aspirations
2. **Prove** you have explored alternative financial behaviours and strategies
3. **Prove** you know the products and services being recommended to clients
4. **Prove** you have explained to the client the risks in the plan and the products through which the plan will be implemented
5. **Prove** you have received the client's informed consent to the risks in the plan.

“The Australian regulator has an important role in protecting consumers against bad financial advice and taking action against advisers where unsuitable advice is given. ASIC’s attitude to date has been too hands-off, as the Senate enquiry noted. Only as recently as last week, the ASIC Chairman Greg Medcraft said ‘being a free enterprise person, I would rather people sort out the issues between themselves rather than involving ASIC,’ referring to disputes between advisers and consumers.

“He also indicated he was happy for the private sector to take actions against dodgy advisers via litigation funds or class actions, rather than ASIC itself. Such a laissez-faire attitude does little to instill consumers’ confidence that their interests will be protected by the regulator,” said Mr Resnik.

“Nor does it reflect an appreciation of the power imbalance between advisory businesses, which are now largely owned by the big banks, and consumers, many of whom are retirees and more often than not, financially illiterate. Many of these consumers have sustained substantial losses in recent times, as highlighted by the CFP scandal, Storm Financial and others.”

Mr Resnik said what we are seeing today is the result of poor decisions made by successive governments.

"Initially, when the Federal Government began shifting responsibility for retirement from themselves to the community, they created a demand for advice but left it to industry to satisfy that advice. In the early 1990s, ASIC chose to go down a disclosure path rather than a quality of advice route. Hence, amongst other things, the very low entry standards required for financial advisors.

"The Government is ultimately responsible for the legislative and regulatory framework. What we have seen from the industry and the regulator over the last 20 years is only what could have been expected given the framework set,” said Mr Resnik.

Much of FinaMetrica’s business activity is offshore given the push by global regulators to raise the standard of financial advice since the 2007-08 global financial crisis. “We provide an online risk tolerance test which enables financial advisors to measure the financial risk tolerance of their clients and better match investments to investors’ needs. Risk tolerance can be quickly and accurately measured by psychometric questionnaires in as little as 10 to 15 minutes. Such tests are important as financial advisers can often overstate a client’s risk appetite, which is what happened with many CFP planners who put clients into riskier investments than they wanted.

“We hope to attract greater interest in our product from Australian advisory firms given the media focus on CFP and the prevalence of unsuitable financial advice. Our product, and the Five Proofs, are a safeguard for consumers. Our solution is now used by 5,500 advisers in 23 countries and is in seven languages. To date, 700,000 tests have been completed, which is a testament to its utility in the advice process and ensuring best practice,” said Mr Resnik.

About FinaMetrica

FinaMetrica specialises in risk tolerance and risk-related matters. The FinaMetrica risk profiling system is based on a psychometric test of personal financial risk tolerance. Psychometrics, a blend of psychology and statistics, is the scientific discipline for testing attributes such as risk tolerance. Launched in 1998, the system is now used by 5,500 advisers in 23 countries in seven languages. The FinaMetrica system enables advisers to make valid and reliable assessments of their clients' risk tolerance, incorporate those assessments into the financial planning process and explain risk more meaningfully. More information: *www.riskprofiling.com*.