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# New reports reveal shortfalls in Australian advice industry

**Sydney, Australia** (October 13, 2014) – Commissions are still tainting the quality of advice in the life insurance industry while inappropriate advice dominates investment disputes brought before the Australian Financial Ombudsman Service, according to two official reports released last week.

A report from the Australian Securities & Investment Commission (ASIC) into the life insurance advice industry reviewed 202 pieces of personal insurance advice. The report said upfront commissions and financial incentives for advisers to write business were key drivers behind high lapse rates and poor quality advice.

The report said there is "significant room for improvement among the advice we reviewed and we will be actively working with the advice industry to lift the standard of life insurance advice."

A separate report, the Annual Review 2013-14 of the Financial Ombudsman Service (FOS), said the organisation accepted 1,174 investment disputes in that fiscal year, a 3% fall from the previous year and down 53% from 2010-11. Dispute numbers dropped across every category, except superannuation, continuing a falling trend since 2010-2011, with the passing of disputes related to the Global Financial Crisis (GFC).

Overall, the FOS received 31,680 disputes, with 45% involving banks. Almost half the investment disputes received by the FOS, or 539, related to managed investments, down 7% from last year but 53% down from 2010-2011. The majority (60%) of managed investment disputes involved a financial adviser. Many investors complained that the advice they received was inappropriate – that it did not properly accord with their financial position, goals and tolerance of risk.

Disputes about self-managed superannuation funds were most likely to relate to inappropriate advice (31%). Common issues in disputes about retail funds were inappropriate advice (16%) and failure to follow instructions/agreement (14%), the FOS said.

Almost one-third (32%) of securities disputes involved a financial adviser, against 25% involving a securities dealer and 13% which involved stockbrokers.

"These numbers reveal that inappropriate investment advice still taints the Australian financial planning industry," said FinaMetrica Co-Founder Paul Resnik.

“There are advisers and advisory businesses out there who aren’t giving suitable advice because they are failing to take into account the needs of their clients and/or their advice is being compromised by commissions and the business models under which they operate. The FOS report reveals many of the disputes involved banks, reflecting their increasing dominance of the advice industry,” he said.

“What we need to see is more advisers take greater responsibility for giving suitable advice. Best practice in the advice process involves matching the specific needs of clients to products and services. This requires advisers to thoroughly understand the needs of investors, to assess 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 advice practice, diminishes the likelihood of 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.

"Applying our risk profiling system, for example, enables advisers to accurately assess their client’s risk tolerance in as little as 10 minutes. The test, and the automatically generated report, helps advisers better match investments to the needs of their clients. Our software enables advisers to meet regulatory obligations and, just as importantly, to do a better job in delivering suitable financial advice to their clients."

FinaMetrica has recently won several international awards for best ‘Risk Profiling Solution’ at the Wealth Briefing Awards. These awards recognise the best “technology solution to help wealth managers assess and document the risk appetite of clients.” Its solution is used in 23 countries around the globe, in seven different languages.

**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 used by than 5,500 advisers in 23 countries in seven languages. More than 700,000 risk tolerance tests have been completed. The FinaMetrica system enables advisers to make valid and reliable assessments of their clients’ risk tolerance, incorporate those assessments into the financial advising process and explain risk more meaningfully. More information: *www.riskprofiling.com*.

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