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Defining year

FPA chair, Neil Kendall CFP®, talks about the progress made on the journey to professionalism

THIS ISSUE: Client Acquisition Strategies / Emerging Markets Home Equity Strategies / Cross-Owned Insurance for SMSF Trustees

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FINANCIAL PLANNING ASSOCIATION *of* AUSTRALIA

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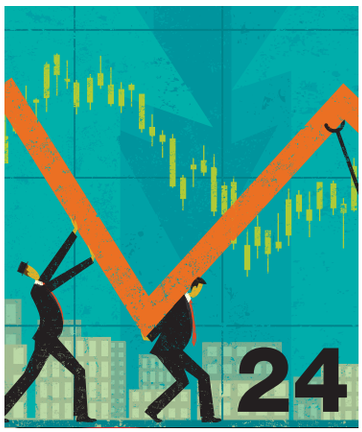

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On the road to securing **success**

During April, May and June, the FPA will visit 32 locations around Australia as part of our national roadshow. We hope to see you at one of them.

You should have already received your invitation to attend the 2015 FPA national roadshow. It only seems like yesterday we were on the road talking about TASA and FoFA. The speed at which time passes never ceases to amaze me, and this year has been no different.

I'm sure you'll agree, the last 12 months have been significant to say the least. Never before has there been so much scrutiny and focus on financial planning. Never before have so many external forces set their sights on our profession.

Whilst this can be confronting and sometimes disheartening, it gives rise to a unique opportunity – for our profession, and for the Australians who desperately need trusted financial advice. In my mind, the two are intrinsically linked and our profession holds the key to securing a better financial future for Australians.

Never before has there been so much scrutiny and focus on financial planning.

A focus on the future

Quite fittingly, this year's roadshow will focus on the future. It is time to stop looking back, and instead move forward as a profession.

At the roadshow, you'll receive an update on FoFA, the FSI Report and the PJC Inquiry.

With so much happening, it is no wonder that many of you are confused about what you might and might not need to do. Member discussions on LinkedIn have been flowing and while we have been responding to questions via LinkedIn, video message and email – the roadshow will give you an opportunity to ask your questions face-to-face.

Reinventing retirement planning

Like any profession, it is crucial we deepen our learning and re-invent our approach to delivering great service. As the professional landscape continues to evolve, so do the needs of clients.

This year, we are delighted to partner with Challenger and Zenith for the roadshow.

In this session, you will learn how to implement and bring to life best practice retirement strategies in your business. You will be given guidance on how to address the specific needs faced by clients when planning for a comfortable and secure retirement. We will also share with you some valuable insights around preparing a Statement of Advice (SoA). These will include some useful tips, as well as information on what the common pitfalls and traps can be when preparing SoAs.

Best interest duty

The material from the sessions will be brought to life with practical examples and case studies that demonstrate how you can implement best practice, in a way that meets your best interest duty. Amidst a changing sea of external factors, a commitment to best practice is one thing that must remain a constant.

The national roadshow has been accredited with two CPD points – if you haven't yet booked your place, you can visit www.fpa.asn.au/roadshow for everything you need to know.

We hope to see you there.

Mark Rantall CFP®
Chief Executive Officer

Budget submission

The FPA has made a submission to the Federal Government in relation to the upcoming 2015-16 Budget, which addresses key policy issues.

Key priorities covered in the Budget submission include:

- Encouraging a savings culture and improving Australians' retirement preparedness to reduce their reliance on the social security system;
- Improving access to financial advice for those Australians who are most in need of assistance in managing their financial affairs; and
- Removing inconsistencies in the tax system.

FPA chief executive officer, Mark Rantall said the recommendations outlined in the submission are in line with the FPA's ongoing goals.

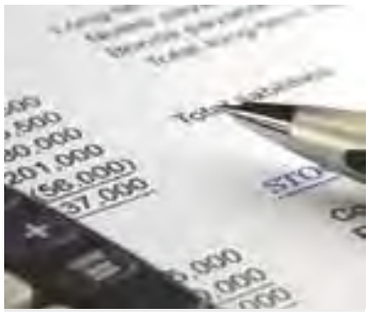
"Our recommendations will ensure Australians have a strong financial future based on financial knowledge from experts. It is important for Australians to understand the benefits of superannuation and have access to financial literacy to maintain consumer protection.

"To do this, we recommend changes such as making upfront financial fees tax deductible, similar to how consumers access accountants, giving Australians further incentive to seek financial advice."

Rantall added that only one in five Australians access financial advice, despite the fact that it contributes positively to financial literacy, social inclusion and economic outcomes. He said it was up to policy makers and associations, like the FPA, to help reduce the barriers to advice and ensure that more Australians seek the help of trusted professionals.

"Investment Trends research shows that 30 per cent of consumers who are not interested in seeking financial advice cite the high cost of advice as a deterrent. It is clear that policy intervention from the Government is key," Rantall said.

"Making financial advice more affordable for consumers supports the Coalition's superannuation policy to encourage as many Australians as possible to actively plan and save for their retirement,



take full advantage of the benefits the superannuation system provides and work toward a self-funded retirement."

To support its Federal Budget proposal, the FPA recommends that the Government engage the Productivity Commission to examine the short-term and long-term position of the Budget if the preparation of an initial financial plan and ongoing fees were tax deductible.

National Roadshow dates announced

This year's annual FPA National Roadshow will kick off in Geelong on 27 April and finish in Wollongong and Sunraysia on 23 June.

Over these three months, the roadshow will visit 32 locations. Members will be given the very latest updates on FoFA, the FSI Report and the PJC Inquiry, as well as guidance on how to bring to life best practice retirement strategies in their business.

Through case studies and practical solutions, members will be shown how to implement retirement planning that meets their best interest duty and professional obligations.

This year, the roadshows will be run in partnership with Challenger and Zenith Investment Partners.

Places are limited, so FPA members are encouraged to register early. Non members are also welcome to attend. All roadshows are free of charge. For more information and to book your place, go to www.fpa.asn.au/roadshow

Save the date*

27 April
Geelong – 12pm-2pm

28 April
Ballarat – 7:30am-9:30am

29 April
Bendigo – 7:30am-9:30am

Mid-North Coast (Port Macquarie) – 12pm-2pm

30 April
Mid-North Coast (Coffs Harbour) – 7:30am-9:30am

Goulburn Valley – 7:30am-9:30am

5 May
New England – 12pm-2pm

6 May
Western Division (Dubbo) – 9:30am-11:30am

7 May
Western Division (Orange) – 9:30am-11:30am

19 May
Brisbane – 12pm-2pm

** Breakfast or lunch is included*

21 May
Melbourne – 12pm-2pm

22 May
South Australia (Adelaide) – 12pm-2pm

27 May
Sydney – 12pm-2pm

29 May
Western Australia (Perth) – 7:30am-9:30am

1 June
Hobart – 12pm-2pm

2 June
ACT (Canberra) – 12pm-2pm

Townsville – 7:30am-9:30am

3 June
Mackay – 7:30am-9:30am

4 June
Northern Territory (Darwin) – 7:30am-9:30am

Rockhampton – 7:30am-9:30am

Wide Bay – 7:30am-9:30am

10 June
Far North Coast NSW (Ballina) – 7:30am-9:30am

Gold Coast – 12:30pm-2:30pm

Toowoomba/Darling Downs – 12:30pm-2:30pm

11 June
Sunshine Coast (Maroochydore) – 7:30-9:30am

16 June
Cairns – 7:30am-9:30am

Riverina (Wagga Wagga) – 12pm-2pm

17 June
Albury Wodonga – 7:30am-9:30am

18 June
South East Melbourne – 7:30am-9:30am

19 June
Gippsland – 12pm-2pm

23 June
Sunraysia – 7:30am-9:30am

Wollongong – 12pm-2pm

Farewell Di Bungey

After nearly 28 years serving the financial planning profession, respected FPA Chapter Relationship Co-ordinator, Di Bungey, has announced her retirement.

In making the announcement, FPA chief executive officer, Mark Rantall said Di had been an iconic part of the FPA since its inception, serving a dedicated 28 years to the advancement of the profession.

"Di has seen many changes over this time and has made many friends, both with the FPA staff and also with many members through her Chapter involvement," he said. "Di will be sadly missed."

Di first joined the profession in April 1987, when she was recruited by Barry Lambert, Maurice Harris and Max Vardanega to become the first full-time employee of the fledgling Australian Investment Planners Association (AIPA), where she was responsible for looking after the principal members. The association later changed its name to the Australian Society of Investment and Financial Advisers (ASIFA), which later merged with the International Association for Financial Planning (IAFP) on 1 January, 1992, to form the FPA.

With a career spanning over 27 years, Di recalls many fond memories working at the FPA, saying her 10, 15, 20 and 25 year anniversaries were all memorable. However, she particularly recalls April 2002, when the FPA passed a special resolution to recognise the contribution made by non-financial planners to the member association. Di was the first person to receive this award, which she says was a great honour and a personal highlight working at the FPA.

After having worked for eight CEOs at the FPA and more presidents and chairs than she cares to recall, Di said the time was right for her to leave the FPA.

"I don't see this as retirement but the beginning of the next phase of my life," Di said. "I may even make the move from Sydney to Perth in the next year or so to be closer to family, although the heat is going to take some getting used to."

Di Bungey

2015 Wheel Classic heads to Brisbane

Cyclists participating in this year's 2015 Future2 Wheel Classic will follow a nine day route between Sydney and Brisbane, beginning 10 November and finishing on 18 November at the FPA Professionals Congress.

The route will take cyclists from Sydney to Maitland (a distance of 162km) on day one, then Maitland to Gloucester (122km), Gloucester to Walcha (140km), Walcha to Armidale (68km), Armidale to Inverell (126km), Inverell to Texas (128km), Texas to Warwick (146km), Warwick to Gatton (100km), and from Gatton to Brisbane (90km) on the final day.

Now in its sixth year, the Future2 Wheel Classic has raised over $460,000 (after expenses) for the Future2 Make the Difference! Grants. These grants are provided to community not-for-profit groups that support disadvantaged young Australians.

Last year's 2014 Wheel Classic ride from Melbourne to Adelaide raised over $141,000.

Early expressions of interest in the 2015 Wheel Classic can be lodged at: www.future2foundation.org.au/register/WC

Online registrations to participate in the 2015 Wheel Classic will open in early March.

Upcoming Chapter events

2 March
Geelong: Member Lunch

4 March
Bendigo: Member Lunch

5 March
South Australia: Member Breakfast

16 March
Western Australia: Annual Golf Day

Melbourne: Annual Golf Day

20 March
Sydney: Tennis Afternoon

25 March
Sydney: Member CPD Breakfast

Thank you to our Chapter supporters

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The FPA congratulates the following members who have been admitted as CERTIFIED FINANCIAL PLANNER® practitioners.

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Bruce Killingly CFP®
Jeff Shakespeare & Associates

Judith Hoppe CFP®
National Australia Bank

Mark Chan CFP®
Commonwealth Financial Planning

Jeffrey Watkins CFP®
IPAC Securities Limited

Dhiraj Arora CFP®
Mercer Financial Advice (Australia

Nessa Foo CFP®
Light House Financial Group

Dimitri Diamantes CFP®
Asteron Life

Fiona Kent CFP®
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Melanie Monk CFP®
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Coghlans Wealth Management

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Plan B Wealth Management

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Westpac Banking Corporation

Christine Flack CFP®
Alder and Partners

Career longevity

For Tom Hesse, CFP® certification means becoming part of a select group of planners who are recognised for their high level of technical knowledge and professionalism.

Tom Hesse CFP®

Age: 27

Educational Qualifications: Bachelor of Finance, Advanced Diploma in Financial Services (Financial Planning), Certificate IV Finance and Mortgage Broking

Position: CERTIFIED FINANCIAL PLANNER®

Practice: Pinnacle Financial and Investment Services

Licensee: AMP Financial Planning

Date of CFP designation: June 2014

Years as a financial planner: Six

1. Why did you decide to become a CFP® professional?

I am building a career in financial planning, so it makes sense to achieve the highest possible qualification and be recognised not only for my technical knowledge but also my ethics.

We have recently seen most licensees come out in support of raising education standards for financial planners. As such, having the CFP certification will ensure I can enjoy a long career as a financial planner.

2. How did you approach your studies for CFP certification?

The first two words that come to mind are, 'be organised'!

The CFP designation will take countless hours, days and weeks out of your normal everyday life. It is a Masters degree level course, so treat it as such. Being organised will enable you to more effectively manage your employment, outside work life and CFP studies.

When the semester starts, get in early and start reading the material and make notes as you go, which will save you preparing them in the few weeks before exams.

3. How did you find the four 'Es' to CFP certification (ethics, education, examination and experience)?

The four 'Es' form the foundation of being a professional financial planner. The four 'Es' give any aspiring CFP practitioner an insight into what separates a CFP certified planner to other non-CFP planners.

4. What is the most challenging aspect of being a financial planner?

The most challenging aspect for me as a financial planner is asking clients the tough questions and getting them to see the reality of situations. Dealing with clients' circumstances when they have experienced death, disability or a marriage breakdown is also challenging.

5. What advice do you have for any planner considering becoming a CFP professional?

Enrol now! CFP certification means becoming part of a select group of planners who are recognised for their high level of technical knowledge and professionalism.

CFP certification means becoming part of a select group of planners who are recognised for their high level of technical knowledge and professionalism.

Transforming profession

Q: The PJC report recommended that only individuals who are members of an approved professional body can call themselves a financial planner/adviser and be eligible to be on the ASIC register. Do you agree with this requirement?

Wayne Leggett CFP®

Principal, Paramount Wealth Management

Licensee: Fortnum Financial Advisers

Where the right to use an occupational description is to be regulated by government, there obviously needs to be certain prerequisites to earning that right.

One possible method of achieving this outcome would be for the Government to establish a process to set out the requirements, provide the regime under which the aspirants acquire the requisite knowledge, and develop a framework to monitor and ensure adherence to the necessary standards.

While the Government does not presently have such a framework in place, it obviously already exists, in the form of the existing professional bodies within the industry.

That being the case, it makes sense for the Government to allow the industry bodies to be the 'gatekeepers' of the process, rather than establishing a whole new regulatory framework.

Financial practitioner representative bodies, including the FPA, have campaigned over a lengthy period of time for the 'enshrinement' of the terms 'financial adviser' and 'financial planner' in law, albeit to no avail. Therefore, it comes as a bit of a surprise that it has been included in the recommendations of the PJC report.

While there have been a number of detractors from the merit of this concept, most notably from the representative bodies of other professionals, the benefits of the restriction of use of the terms are quite compelling.

For the financial good of the Australian populace, we can ill-afford to ignore the poor reputation suffered by our profession. That said, attempts to improve the public image of financial practitioners are pointless if they are not delivered hand-in-glove with a rigorous process that ensures that those bestowed with the right to claim use of the terms adhere to an appropriate 'code of conduct'.

Given that members of certain industry professional bodies, such as the FPA, presently adhere to such a code, the Government can take advantage of the expediency of dovetailing into their processes, rather than reinventing the wheel.

Daryl La'Brooy CFP®

Financial Adviser, Hillross Financial Services

Licensee: Hillross Financial Services

The financial planning profession has had a poor year in the media in 2014 and this is after a series of bad news events in recent times. This poor publicity needs to be changed quickly. The media love bad news stories and we as a profession keep giving them great content!

Clearly, there is a need to lift standards and do this as soon as possible. In this regard, the FPA has done, and is doing, a great job to be at the forefront of raising education standards. Although even if we had the most highly qualified and trained profession, nothing will prevent those who want to break the law from doing so, even if they had a PhD.

However, the argument for raising standards goes a long way to keeping out unscrupulous people. If it's too hard for people of questionable character to get into our profession, they'll find somewhere else to prey on the vulnerable.

So, enshrining the term financial adviser/planner for those who qualify, is an integral step in our journey to improved professionalism. The Westpoint collapse from a decade ago revealed that people selling these investments called themselves 'financial advisers' when, in fact, they hadn't been licensed by anyone.

However, restricting what can be called an adviser/planner is just one necessary step in our evolution as a profession.

Another key item of change has to be the culture some of our colleagues operate in; where it's all about short-term sales at the potential long-term expense of the client. Until this changes, future scandals could be waiting, with more bad media coverage following. It's this bad and negative publicity that stops the vast majority of Australians who need help to improve their futures from coming to see us.

Want to have your say? Join the debate on the FPA Members' LinkedIn Forum.

Rick Forster

Retired FPA member

In relation to the PJC report, it should first be defined as to what is a financial planner and what is an investment adviser. Furthermore, are they an agent of the client or are they an agent of an investment product provider? ASIC was responsible for bringing the two differing cultures together when it became the single regulator in 1994.

A financial planner should be the agent of the client, looking at their present position, discussing their hopes and aspirations, checking on their risk levels, putting together a plan or strategy, implementing the plan including placing the underlying investments, and monitoring superannuation, retirement and estate planning. This is in contrast to those whose fundamental occupation is selling investment products.

Unfortunately, the industry has become a complex web of differing occupations and sources of income. Nothing is clear-cut. Neither the public nor the press can properly recognise who is really a financial planner. The vocation of a financial planner must be defined and enshrined in law.

The next question is what is an approved professional body?

A profession may be defined as a subjectively and objectively recognised occupation which provides skilled and defined service, practice is made exclusive by education, association and government recognition, and practitioners exercise control over peer standards and income, balanced by the interests of both their clients and the public. Hopefully, ASIC would only approve financial planning representative bodies and it would be then that financial planners would be proud to be registered as such.

In a perfect regulatory world, financial planning would conform to the definition of a profession, income would be derived from fees for service, and planners and their professional bodies would answer to a separate regulator, the Financial Planning Commission, until they earned the right to deserve self-regulation.

Rebecca Fergusson CFP®

Principal and Private Client Adviser, Main Street Financial Solutions

Licensee: Lonsdale Financial Group

The Parliamentary Joint Committee (PJC) report's proposal to recommend that only individuals who are members of an approved professional body can call themselves a financial adviser and be eligible to be on the ASIC register is a positive move that will further lift the professional, ethical and educational standards in the financial services industry. This will serve to enhance the standards of financial advice and in turn, help protect consumers.

The oversight of financial advisers by a professional association in conjunction with ASIC should provide sufficient accountability for individual conduct. It will hopefully improve training standards for financial advisers and result in an increase in the minimum education standards.

I agree with the report's recommendation that the minimum education required be a bachelor degree. This would be in line with other professions, such as the Australian Society of CPAs, of which I am a member.

I believe the implementation of the PJC recommendations will help transform the financial planning industry into a universally respected profession, backed by high educational standards and a professional framework to support those who choose to become financial advisers.

The transformation from an industry to a profession will ensure public trust is maintained and business confidence is recognised and valued. The professional body can be used to control knowledge, regulate members and encourage client dependency for its services, all of which are a positive for financial advisers.

Would you like to join our panel of FPA members willing to give their opinion on topical issues? Email editor@financialplanningmagazine.com.au to register your interest.

The future is exciting. We're very clear on what we're trying to do and we're getting results.

Defining year

Just over three months into his chairmanship of the FPA, Neil Kendall CFP® outlines the progress made on the journey to professionalism. Jayson Forrest caught up with him.

If there is any uncertainty about the continuity, momentum and future direction of the profession, there's no need to be. Financial planning is in safe hands under the stewardship of recently elected FPA Chair, Neil Kendall CFP®.

With almost 30 years of industry experience, with the last 13 years spent as managing director of Brisbane-based financial planning practice, Tupicoffs, Neil lives and breathes financial planning.

His industry peers voted him the *Money Management* Financial Planner of the Year in 2006 and runner up in 2009. He qualified in the 2006, 2008, 2010 and 2012 Masterclass, which is an assessment that recognises the Top 50 financial planners in the country. And in 2011 and 2012, he was a judge for the FPA Best Practice Awards.

But what many planners would be unaware of is that Neil was nominated for the Australia Day awards in 2012 and 2014 for his work in financial planning. For Neil, planning is not so much a vocation as a calling. And you would be hard-pressed to find a more vocal advocate for the professionalism of financial planning than Neil Kendall.

He has spent the last four years as a director on the FPA Board, including heading up the FPA Policy and Regulations committee. And it is through this involvement at the policy coalface that Neil believes he is well positioned to carry on the work begun by his predecessor, Matthew Rowe CFP®, on the journey towards professionalism.

In fact, his prime motivation for joining the FPA Board four years ago was his need to give back to the profession.

"I had been involved with the local Brisbane Chapter for quite some time and so for me, the opportunity to make a difference at the FPA Board level was apparent. The FPA represents the largest single constituent organisation of financial planners in Australia. So, if you want to make a tangible difference to the profession, then the FPA is the logical place to do it, and being on the Board of the FPA was the right way to do this."

Continuity

But what motivated Neil to put up his hand as Chairman of the FPA back in November 2014? Surely, he was already balancing a full workload?

Neil laughs but is circumspect in his reply.

"At the time there was a sense of necessity," Neil says. "Matthew Rowe was stepping down from the Board having served his maximum tenure. So the Board, and I believe members also, needed somebody to step up and take over the reins. I had already spent four years of my life on this journey to professionalism, and I felt we needed a new Chairman from within the FPA membership who could continue this journey."

Neil says it was important this continuity of leadership came from within the ranks of the profession itself and not via an external Chair, who inevitably would struggle to really understand what it is financial planners do, not to mention come to grips with all the regulatory issues.

"We needed a Chair from within the FPA. I was in a position where I could put up my hand and be

Continued on p14

counted. It was important for me to see that all the work of the past four years towards professionalism would not be lost as a result of having a new Chair who had a different vision to what the FPA had."

So, Neil's decision to stand for the Chair was ultimately about continuing the journey towards professionalism, and making sure the FPA didn't lose the momentum that it had gained over the last few years towards this objective. And he adds that it was also important for him to step up as a planner to ensure the best interests of members, consumers and the profession were best served.

Neil brings to the role a grassroots understanding of being a financial planner and the challenges planners face every day.

"First and foremost, I am a financial planner. I sit in front of clients; I ask questions about their situation; I listen to their concerns. So, I've got a very good understanding of the challenges and issues that we face as a profession. I've got a genuine desire to see financial planning grow and to see consumers get better financial advice."

Issues

But with so many issues and challenges facing the profession, did Neil ever think twice about taking the helm?

"Not at all," he says. "It's a very exciting time to be a financial planner."

At the top of the FPA Board's list in terms of issues facing the profession, is that of financial planner education.

"I believe education is the number one issue," Neil says. "We are at the point of getting the entry standard for financial planning, as a professional occupation, increased to degree level. The PJC Report has made

"We need to get away from the negative issues of the past and focus on the good job that financial planners do."

recommendations that planners be suitably degree qualified."

Neil is adamant that by raising the entry standard for planners, as the FPA is committed to doing, it will not only lead to improved and better quality advice being provided to consumers, but the logical flow-on effect of this improvement will be the enshrinement of the term financial planner/adviser in law.

Indeed, enshrining the term financial planner/adviser is squarely within the Board's sight, which Neil believes could be legislated this year.

"When I first joined the Board, the idea that the term financial planner/adviser be enshrined in law was a distant dream," he concedes, "but now it looks like we'll get it done this year. So, in order to call yourself a financial planner, you'll have to meet the basic and prescribed education standards agreed to by the Government. That's a huge step forward for the profession."

The ASIC Register is also one of the Board's wish-list items.

"There simply has to be a list of who is a licensed financial planner. So, the ASIC Register, which should be delivered on 31 March, will be great for consumers and financial planners. It will be one source of truth about who is licensed to give financial advice."

Raising consumer awareness about the value of advice is also firmly on the Board's radar, which Neil adds is a major priority for the FPA.

"We need to get away from the negative issues of the past and focus on the good job that financial planners do. We are making good ground on that. We want to reinforce the value that the FPA membership delivers to consumers, including what consumers get from a financial planner having to adhere to our Code of Ethics and our Code of Professional Practice, and the higher standards that FPA members are working to."

Neil says the FPA will continue to actively promote these higher standards to consumers, not just through targeted marketing and advertising campaigns, but through strategic partnerships. He specifically points to the successfully implemented referral program with Cbus and Sunsuper, where both organisations are referring their members to CFP practitioners working in an FPA Professional Practice.

"These sorts of arrangements reflect a growing awareness of financial planning and the FPA's high standards of professionalism. I believe we will see more of these types of arrangements come through, which will be of benefit to members," Neil says.

And what about member acquisition? It's another topic that is close to the Board's heart.

"Member acquisition is clearly one of our target areas," Neil says. "We are looking to grow the membership but only of the right people. It's about maintaining the standards that we've set – professionally, ethically and educationally."

He says one of the main challenges over the next two years is making the pathways more accessible for people to reach those standards, such as helping them to understand and fulfil the education requirements for membership. But he is adamant that the FPA won't be dropping its standards, which he adds are world leading.

"We actually want to make it easier for people to understand what they need to do to be able to link those standards. Fundamental to this is to provide more accessible courses to help individuals get to that level as required by the FPA."

Future2

And what of the FPA's charitable foundation, Future2? The Chairman is steadfast in his belief that it will continue to play an important role in defining the profession.

"Future2 is a great initiative and focus for the Chapters, not only in terms of the pro-bono work that members are doing but the charitable giving where we're helping the community. Future2 is definitely another big item on the Board's agenda for 2015."

Neil points to this year's Future2 Wheel Classic, which will follow

a nine day route between Sydney and Brisbane (10-18 November), finishing at the 2015 FPA Professionals Congress in Brisbane.

"Last year's 2014 Wheel Classic ride from Melbourne to Adelaide raised over $141,000 for the Future2 Make the Difference! Grants. This money, along with all the fundraising done at Chapter level, are providing much needed funds for community not-for-profit groups supporting disadvantaged young Australians. This is what being a profession is all about," Neil says.

Year ahead

With so many challenges on the Board's agenda, Neil is clearly excited about the direction the FPA is heading. "What I see happening over this coming year is that the initiative we began four years ago of professionalising financial planning, of raising education standards and enshrining the term financial planner/adviser, will result in some definitive results being achieved on these objectives.

"So, while we have plenty of encouragement and support for these objectives, we don't yet have them legislated. But I do believe we're about to reach that sort of point during 2015. I think we're going to see the last four years of work actually deliver some concrete conclusions over the next 12 months."

Understandably, Neil is buoyed by the progress made by the FPA over the past four years. So, how does he see the next 12 months panning out?

Neil doesn't hesitate in replying: "I think 2015 will be a defining year for financial planning in Australia."

He says the organisation has clear direction and vision, which revolves around the best interests of consumers, raising professional standards, and improving financial planning for all Australians.

"The future is exciting," Neil says. "We're very clear on what we're trying to do and we're getting results."

Neil specifically refers to the FPA's 10 Point Plan, with eight of those points either accomplished or in the process of being fulfilled. He is justifiably proud of progress to date but admits work still needs to be done in relation to the tax deductibility of financial planning advice (Point 9) and a review into lifting the criteria of a sophisticated investor (Point 10).

"There's still a lot of work to be done but the FPA and the Board are committed to continuing the journey towards professionalism. We're making real progress. While the journey still has some way to go, I firmly believe this year will be a defining year for financial planning in this country. It's a journey you wouldn't want to miss."

Your story Do you have a story to tell? If so, please contact the editor on 02 8484 0906 or at editor@financialplanningmagazine.com.au

On target

Participants

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Managing Director
and Principal Adviser
Bravien Financial

Chris Smith CFP®
Partner
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Catherine Robson CFP®
Principal
Affinity Private

Jim Fenwicke CFP®
Financial Adviser
Lumix Wealth

Randall Stout CFP®
Director
HPH Solutions

George Flack CFP®
Managing Director
Flack Advisory

Nicolas d'Emden CFP®
Private Client Adviser
Shadforth Financial Group

Acquiring clients is one thing, but acquiring the right type of new clients is another thing. *Financial Planning* asked seven successful CFP® practitioners for their views on client acquisition strategies.

Have you developed and implemented a strategy for acquiring new clients?

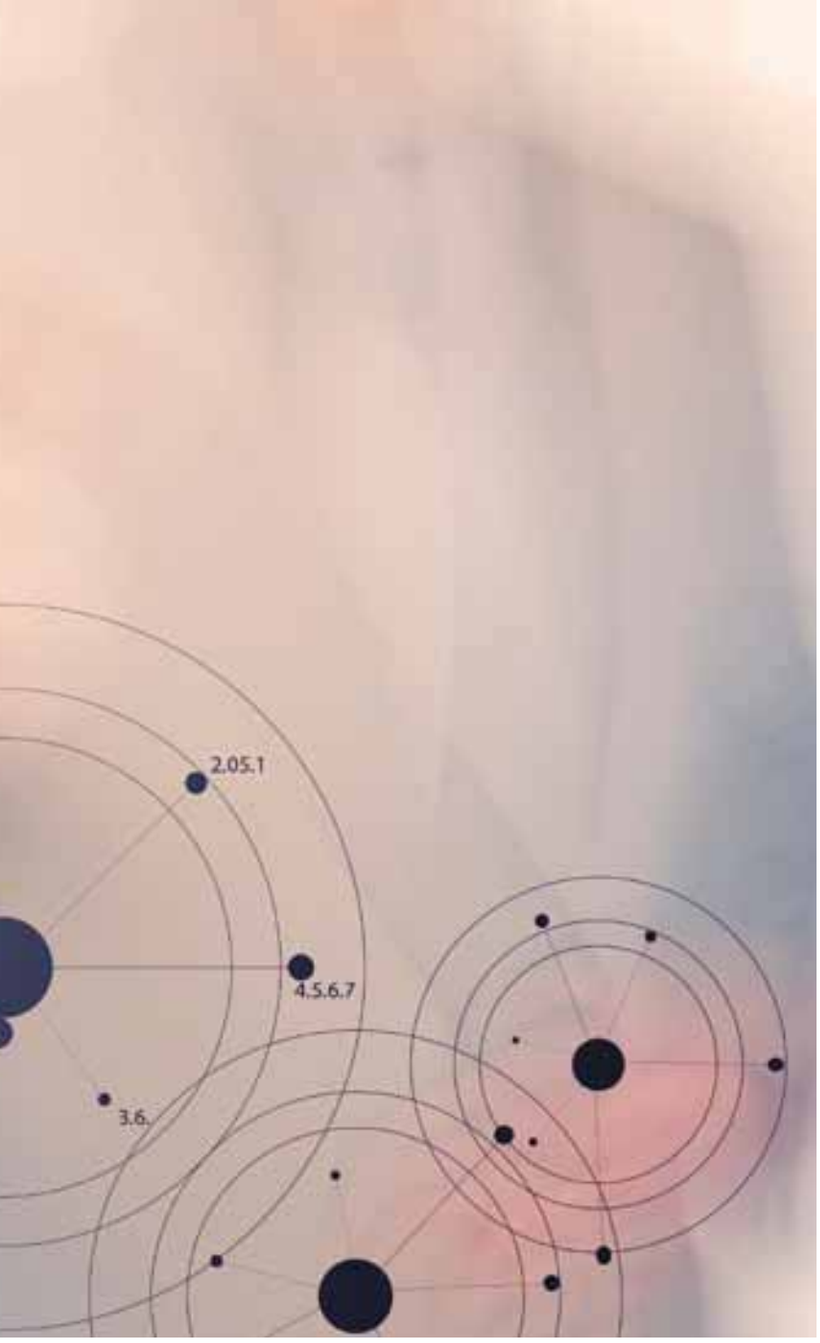
Jeremy Gillman-Wells (JGW): I use a three-pronged strategy. Firstly, in terms of building Centres of Influence (COI), one hour per fortnight is dedicated to meeting with new COIs or developing the relationship with existing ones. This must be an active program, just like putting time into any other relationship.

Secondly, I ask existing 'A' clients for referrals at progress meetings and rewarding them for doing so. And thirdly, I use a deep value-based approach at the initial discovery meeting in order to maximise the rate of engagement with the client.

Chris Smith (CS): We have a communications manager to co-ordinate our marketing plan. The key strategies include maximising client engagement in order to promote our adviser approval rating scores, ultimately leading to a higher number of referrals. She also assists in our online and social media publications.

Additionally, our general manager is focused on an acquisition strategy this year, as we endeavour to grow our firm through the purchase of several other businesses.

Catherine Robson (CR): The best source of new clients is referrals from existing clients. We did a great course with David King from Vue Consulting



a number of years ago around building a structure for feeling comfortable discussing referrals with clients and building it into a consistent process, which is weaved into all the other work we are doing with clients.

Our strategy is to deliver exceptional advice and service to our existing clients and what we find is they naturally become advocates for our business. However, even if your clients think you are great, you still need to make sure they know you want new clients and that they are clear about what sort of clients you are looking for.

Jim Fenwicke (JF): I am a firm believer that the most successful way to acquire new 'ideal' clients is through referrals from existing clients. I have had moderate success from centres of influence, as referrals from these sources tend to be of a more mixed quality.

So, our strategy is twofold. Firstly, plant 'referral seeds' throughout the business, so that all clients are passively aware that our business has the capacity to take on new clients and that these clients come from referrals.

Secondly, having discussions with clients about who we like to work with. We are not asking for prospects' names (although we will organise a proper introduction if one is given), just educating clients about who we work with, so they are better equipped to make a referral down the track.

Randall Stout (RS): By increasing the awareness of our national and state FPA awards with our existing clients has resulted in an increase in new client queries. However, during our review process with existing clients, we do ask for referrals. We are blessed to receive many referrals from our existing clients.

George Flack (GF): Having spent well over 42 years within the financial services industry (including over 27 years in financial planning), I can assure you that I have developed and implemented numerous strategies for acquiring new clients. Some have worked – others haven't!

By far the most basic and fundamental strategy for acquiring new clients that has worked the most successful for me is 'word-of-mouth' referrals. In fact, during the past 27 years, I have fine-tuned the strategy and the result has seen our business attract 95 per cent of our new clients from word-of-mouth referrals and we retain 98 per cent of them.

Other client acquisition strategies involve our sponsorship and support to sporting clubs and organisations, such as bowls, croquet, athletics, arts, emergency services, Cancer Council, and autistic groups – to name but a few.

Nicolas d'Emden (NdE): This is something that is constantly being refined and improved upon. My core strategy has always focused on referrals from existing clients. However, I recently changed my method and timing of asking a client for a referral. I now talk about potential referrals and ways I can help others in client progress meetings, and have found this to be a softer yet more effective approach.

How long does it typically take you to convert an individual into a client?

JGW: Generally our process from the initial phone contact to establishing if we might be the right firm for the client, will be 7-10 days from the initial meeting. We keep allocated slots in our weekly calendar for such meetings, to ensure new clients do not have to wait too long for an initial discussion. From the initial appointment to preparation of the client's financial road map and terms of engagement (not advice) is another 7-10 days. At this point, the client signs an authority to proceed and agrees to the professional fee – so this is our 'conversion' point.

CS: Typically, the prospective client either agrees to proceed within three days of the initial meeting; quite often there is an engagement agreement immediately following the conclusion of the initial meeting. Following the initial introductory meeting and providing the prospective client agrees to engage with our firm, we have a service standard of two weeks from data collection to a strategic modelling presentation. The financial plan is then completed and presented in a week.

CR: We have had to work really hard in this area, as without structure, our conversion time is really slow. For example, we had one client who kept telling us they were keen to proceed but it took us two years to convert them!

One of the most effective strategies to counter this is to never complete a meeting with a client, new or existing, without booking in the next meeting. This is more time efficient for the

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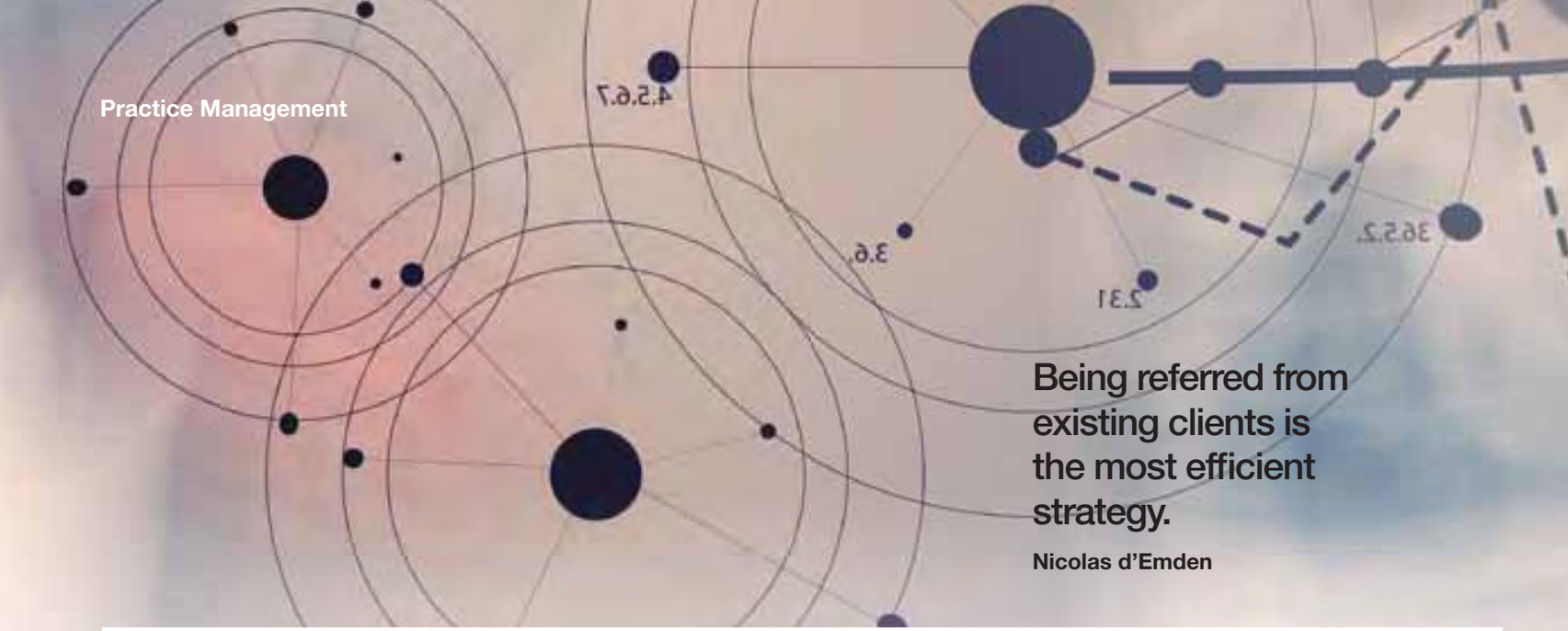

Being referred from existing clients is the most efficient strategy.

Nicolas d'Emden

client, makes our service more pro-active, and keeps the new client engagement process on track. Having embraced this strategy, we have our conversion time to around 8-10 weeks.

JF: This generally doesn't take too long. We hold a short initial meeting and follow this up with a Letter of Engagement. Referral prospects usually evaluate this quickly, while COI prospects sometimes take a little longer.

RS: We offer a complimentary initial meeting, then we offer our Terms of Engagement two weeks later, which outlines how we can help the client and how much we charge. The client usually decides on our proposal within the week of receiving their Terms of Engagement.

GF: The conversion from prospect to client takes a differing amount of time, dependent upon the client's 'timing' of their coming to see you in the first instance. For some pre-retirees, it's a matter of weeks to retirement, while for others, it has been upwards of five years.

NdE: The conversion time really does depend on the individual client. Some individuals, who have been referred to us from a good friend and trust their recommendation, would sign up after the first meeting. While we don't let them do this, nevertheless, some are happy to do so! Others can take a bit longer and a few more meetings, so it really does vary on each individual.

What are your most efficient client acquisition strategies?

JGW: My most effective client acquisition strategies include dedicating one hour per fortnight to meeting with new COIs or developing the relationship with existing ones. And also asking my 'A' clients for referrals.

In fact, over the past 14 years, we've done it all – cold calls, database targeting, letters, e-news, seminars, corporate super. Without a doubt, COIs and existing clients generate the best new clients for us to serve. It's about maximising your efficiency.

CS: Referrals are by far the best client marketing strategy we utilise. We have used a variety of alternatives over time, including cold calling, social media advertising and business acquisition.

CR: Obtaining referrals from existing clients, as they are more likely to share our values, and we are likely to be the 'ideal' adviser for them.

JF: Definitely referrals from clients.

RS: Client referrals are our best client acquisition strategy.

GF: Word-of-mouth referrals are the most efficient.

NdE: Being referred from existing clients is the most efficient strategy. Having a third party endorsement is fantastic for building that initial trust with a client.

Do you utilise a social media strategy (ie, LinkedIn, Twitter, video uploads) as part of your marketing strategy?

JGW: We have a LinkedIn and Facebook profile. We are currently working on videos for our corporate website. Predominantly, our business specialises in retirement planning and in our experience (and through surveys), many clients in this market are not big Facebook or Twitter users.

However, I absolutely believe that the next generation of clients (say 10 years from now) will be more actively using social media, so these channels will need to be developed.

CS: Yes, we do.

CR: We use LinkedIn and video quite a bit. However, we think about this less in terms of new client acquisition and more about staying relevant and engaged with our existing clients, and validating their decision to choose us as their advisers. It means that we stay front-of-mind for clients, which then makes them more likely to discuss us positively with their friends, family and peers.

JF: I am a slow adopter but have no doubt these channels will become increasingly important. I am on LinkedIn and we have just shot our first promotional video for our website.

RS: We communicate with our clients using Twitter, Facebook and LinkedIn. This raises the profile of our business in our clients' minds. We also ask for LinkedIn recommendations, which help with client referrals.

GF: We don't utilise a social media strategy, other than having a good website developed over the past 18 months by a La Trobe University student, Travis Pithie. We try to ensure the website's currency by updating it as often as it requires.

NdE: I do but not to the extent that I should. I use both LinkedIn and Twitter and have made the time to get the best out of these platforms. I think there is a lot of value in social media and those practitioners who are doing it well, get great traction from it. It is something I am going to definitely focus on in 2015.

What client acquisition strategies don't work for you?

JGW: For us, seminars and letters followed by phone calls, don't work.

CS: I believe they all work to a degree. Often it is the return on investment that dictates which ones we repeat and how often. Our referral program is ever present in our firm, whilst other strategies, such as advertising, are often seasonal and intermittent.

One particular marketing strategy is our community partnership

I believe that involvement in the community needs to be motivated by a genuine desire to contribute, rather than by immediate self-interest.

Catherine Robson

My most effective client acquisition strategies include dedicating one hour per fortnight to meeting with new COIs or developing the relationship with existing ones.

Jeremy Gillman-Wells

initiative, whereby we sponsor local sporting teams. This does not yield very high client introductions, however, we take great enjoyment from participating in our community and helping out with financial support.

CR: Any strategies where you are not measuring the inputs and outputs are not generally very successful.

It's important to have a clear strategic intention when spending time or money on marketing, collecting and analysing the results, and then devoting more energy on those things which are most effective. It's business 101, but I have certainly made the mistake of being too 'busy' to plan, execute and assess a marketing strategy well and then wonder why it didn't work!

JF: We are a high care, high touch business, so any mass advertising is likely to throw up less than ideal clients.

RS: We don't run seminars to the general public.

GF: The client acquisition strategies that we have tried in the past that simply do not work for us are radio, television and print media – all financially costly.

The ones in the media that do work for us usually do not involve a financial expense – these happen to be my personal community involvement in a range of activities, such as my Marist Brothers Brass Band (of which I have been a member for over 50 years), my volunteer fire fighting and administration roles in the CFA's Bendigo Fire Brigade (for well over the past 47 years) and finally, my amateur and professional track and field athletics that have consumed my life for the past 47 years also.

NdE: I found the old method of simply asking for referrals was not useful. Clients were put on the spot and 99 times out of 100, they couldn't immediately think of anyone to refer. Although I still ask for referrals, I have a new method of doing it which has improved the success rate.

How involved are you within your local business/ professional community?

JGW: I'll give this a score of three out of five – could always be better, I guess! We have an active program to develop relationships with accountants, lawyers, mortgage brokers and so forth. However, it's those firms that were built over five years ago and have a good history that are the best client referrers for us. So, start early building these professional relationships.

We are no longer involved with Business Networking International (BNI) or the Chamber of Commerce but 10 years ago, these were really important and beneficial for us. However, the relationships developed in the local business community with like-minded professionals, are still the best ones we have today.

CS: To date, we have not been a great participant, however, one of our strategic objectives is to build our profile in the press and within the industry, and this has led us to re-examine how we interact with the community. We are especially interested in increasing our involvement with the FPA and in the independent space with our membership of the Boutique Financial Planning Principals' Group.

CR: I believe that involvement in the community needs to be motivated by a genuine desire to contribute, rather than by immediate self-interest. Ironically though, my observation is that if you get involved for the right reasons, positive outcomes, including business outcomes, often follow.

I have a strong interest in women's financial literacy, so I volunteer my time as a board member of WIRE Women's Information, a not-for-profit organisation which provides a free telephone referral line and physical information service. I am also a guest presenter for VicSuper's Super Woman Money Program and I also co-chair a female adviser support group in Victoria.

JF: I sponsor the Sydney University Football Club and am actively involved in that community. The demographics of its supporters and past players are a good match for our target client.

RS: We are actively involved in the FPA WA Chapter. In fact, when I took on the WA Chapter Chair role, this was looked upon positively from both new and existing clients. In addition, we have written articles for the local WA paper, which are well received by new and existing clients.

GF: In addition to the band, fire brigade and athletics I have already mentioned, I am also heavily involved in local government (I aim to stand for the City of Greater Bendigo Council in Oct 2016) and the 3556 Business & Community Network, which is our Eaglehawk Business group that I have been the past chair and the foundation person who established 'Relay for Life' in Bendigo in 2000.

NdE: I am quite involved locally, often dealing with local solicitors and accountants on a weekly basis. I think these relationships are a great source of client referrals, but it does take time to build, as they often already have relationships with other professionals. Other professional networks that I am also involved with include real estate agents and conveyancers.

Financial Planning thanks these seven CFP practitioners for sharing their insights on their client acquisition strategies. Next month, Financial Planning magazine will feature an article on 10 strategies to enhance client loyalty.

"To quote an old cliché, there are a lot of balls in the air to juggle, the most important one being to ensure that you're putting your clients' interests first."

Name: Stephen Godfrey AFP®
Age: 30
Practice: VISIS Private Wealth
Licensee: VISIS Private Wealth
Years as a planner: 5

The sweet spot

The national winner of the 2014 FPA Financial Planner AFP® of the Year Award, Stephen Godfrey AFP®, talks about what winning the award means to him.

Pride and validation. These are the two words Stephen Godfrey uses to describe his feelings on being named the national winner of the 2014 FPA Financial Planner AFP® of the Year Award at last year's FPA Professionals Congress in Adelaide.

Pride in winning such a prestigious award, and validation in knowing what he is doing, as a planner, was right.

"I believe I am doing the right thing by my clients and my clients believe I am doing the right thing by them. It's both humbling and rewarding to see that my peers also believe that I am doing the right thing, as well."

Stephen adds that with all that is happening with FoFA and the accompanying noise that is occurring in the financial advice space, it was reassuring for him to know that as a planner, he was doing the right thing with his clients.

"And because my entry was peer-reviewed, it provides me with a real feeling of gratification."

In deciding the national winner of the 2014 FPA Financial Planner AFP® of the Year Award, one of the judges, Rob Pyne CFP® – director at HPH Solutions – commented on the high number of quality submissions.

"The judging process was challenging, as there was such a high standard of applications," he says. "It was very encouraging to see the quality of work that has been done. Planners are following a rigorous process of giving advice, which reinforces the framework for giving advice consistently, in a way that gets good outcomes."

According to FPA chief executive officer, Mark Rantall, the FPA Financial Planner AFP® of the Year Award is designed to encourage and recognise the achievements of AFP professionals who have a commitment to both excellence and professional development.

"The FPA Financial Planner AFP® of the Year Award recognises financial planners who are dedicated to the world-leading FPA Code of Professional Practice," Rantall says. "The FPA code ensures that we live up to the expectations of our profession, by ensuring that financial planners are doing the right thing, acting in their clients' best interest, and providing the highest quality advice to their clients."

Motivation

But what motivated Stephen to enter the 2014 FPA Awards?

For the private client adviser at Visis Private Wealth in Brisbane, challenging himself was one of his key drivers for doing so.

"From a personal development perspective, one of my goals was to take myself to the next level," he says. "And as part of this, I wanted to see how I compared to other planners in the market. So, I thought the easiest way to do that was to enter a couple of awards."

Stephen entered the IFA Excellence Awards 2014 and won the Rookie Adviser of the Year category. This gave him the encouragement he needed to further push himself by stepping up a level to enter the more demanding and prestigious FPA Awards.

When asked about why he decided to become a financial planner, the 30-year-old admits that finance always interested him, even at school.

It was back in 2006, at the age of 21, that Stephen launched his career in financial services, working for a chartered accounting firm in Brisbane. And while numbers came easily to him, he realised that after 12 months with the firm, accountancy wasn't for him.

After a three year sabbatical in a business role with another company, Stephen missed the "numbers" and the satisfaction he felt helping people with their finances. At the urging of a friend, he drifted into financial planning and five years later, hasn't looked back.

Continued on p22

But with only five years under his belt as a planner, how does Stephen differentiate himself as a practitioner?

It's a tough question that momentarily stumps him.

"I'd like to think I am at the forefront of the profession for technical skills and I think I've also got very good interpersonal skills. My clients tell me it's the trust they have for me and the 'sleep-at-night factor' I bring them in our relationship that they value. I also think it's the frank and honest communication I have with them, because that's what I'm here for."

CFP® designation

Delighted with taking out the FPA's premium award for AFP practitioners, Stephen isn't resting on his laurels, with completion of his CFP certification studies firmly in his sights. He has already completed CFP 1-4, and is intending to complete his final unit this year.

So, what does the CFP designation mean to Stephen? Is it worth the extra study?

He finds the question slightly amusing, particularly for a person who already holds Bachelor degrees in Business Management and Commerce from the University of Queensland and a Graduate Diploma in Financial Planning, and a Masters in Applied Finance. For this Queenslander, ongoing professional study does not faze him.

"The CFP mark is internationally recognised as being the highest standard of designation in the financial advisory profession, so gaining this certification is something any planning professional should aspire to," Stephen says.

"I see financial advice rapidly becoming a profession. The public still don't view us the same way as they do with aligned professionals, like CPAs or CAs, but we are on the way. And the way we continue to do this is to invest time, effort and skills into our professional designation.

"From an education perspective, I feel that it's very important to be at the forefront. This not only enables us to stand on our own two feet with clients but it also means you're on the same level as your peers in the profession. The CFP mark is the gold standard for our profession," he says with enthusiasm.

State winners: 2014 FPA Financial Planner AFP® of the Year Award

The FPA congratulates the following AFP® practitioners who have been named state winners in the 2014 awards.

WA: Simon Podesta AFP®, Infinity Wealth Solutions

VIC: Simon McGuirk AFP®, McPhail HLG Financial Planning

TAS: Cameron Pereira AFP®, Genesys Wealth Advisers

QLD: Stephen Godfrey AFP®, VISIS Private Wealth

Opportunities

When it comes to the challenges and opportunities facing him as a practitioner, Stephen is pragmatic.

For him, it's not the constantly changing regulatory landscape and long hours. Rather, Stephen sees his greatest challenge as combining being a planner with running a business. "And whilst it's not my business, I essentially run my own business within the business, which is my client base," he clarifies.

"Financial planning is probably one of the few careers where you've got a business that you run, and you're trying to be a planner, and dealing with all the external noise like FoFA and regulations. To quote an old cliché, there are a lot of balls in the air to juggle, with the most important one being to ensure that at all times, you're doing the right thing by your client and putting their interests first. For me, managing all these things at the same time is where the challenges lay."

And as for opportunities, Stephen believes he is in the 'sweet spot'.

"I have joined the profession at a time when, while it is tumultuous, I feel there is a changing of the guard. The old breed of planners are either in their twilight years or exiting the profession. And the new breed of university degree qualified planners, who are entering this new fee-for-service profession, are hungry, highly motivated and I believe they will redefine the advice profession. I believe this is where the opportunity lies."

Advice

As a young professional, Stephen is keen to help other young practitioners develop, and does so by sharing some of the lessons he has learnt over the years. One of these lessons is to keep your messaging simple.

"Financial planning is a technically complex subject, so simplicity is the key to explaining our strategies and what it is we do," he says.

"If you speak and treat every client the same way as you would your parents, then I think it makes the whole process easier. I know that may sound like a throw-away line, but with everything I do for my clients, I am constantly thinking: 'Would I be happy if somebody explains or recommends this to my parents?' It's a very sobering thought."

And he offers some additional advice.

"If you don't feel comfortable doing something or recommending something, then don't because it's probably wrong. I know that's common sense but it doesn't hurt to be reminded of it."

And what advice does he have for other AFP practitioners aspiring to enter this year's FPA Awards?

"My best advice is to give it a crack," he says. "If you're comfortable in what you do every day, which as a planner you really have to be, I think it's worthwhile submitting an entry. It also helps you to put down on paper what you're doing every day and sometimes when it's down on paper, it becomes more meaningful for you than just thinking about it.

"For me, it was actually a really good experience to go through the application process."

And would he enter these awards again?

"Absolutely," he says. "Not only is it fantastic to win the award but just submitting the entry really makes you re-evaluate your own processes, strengths and weaknesses, which have all helped to provide me with a good foundation on which to build my career. Surely that's a good reason in itself."

On p23, Stephen Godfrey outlines some of the key points summarising why his clients are better off as a result of his advice, as submitted as part of his national winning entry for the 2014 FPA Awards.

Client key points

With reference to the SOA provided part of Stephen Godfrey's entry for the FPA Awards, the key points which summarise why his clients are better off as a result of his advice include:

1. Provided clear financial advice on achieving the client's stated goals and objectives:
- The purchase of a new primary residence;
- Repaying non-deductible debt;
- Optimising taxation position;
- Purchasing a new car; and
- Having suitable personal insurance in place.

2. Working out the details of the client's financial objectives:
- Short-term (1-5 years)
  - Purchase a principal place of residence in Brisbane.
  - Purchase of a new car.
  - Establish a strategy to deal with the ESS tranches as they are issued. Assist children with their university costs.
  - Within the next 24 months, prepare for a new addition to the client's family.
- Medium-term (5-10 years)
  - Undertake a career evaluation for the client that may lead to alternative employment.
  - Repay the non-deductible home loan and continue wealth creation.
- Long-term (10+ years)
  - Achieve financial independence.
  - Client to retire at age 60.
  - Meet clients' lifestyle expenses of $250,000 (present value) per annum up until retirement.
- Ongoing (short-term and long-term)
  - Adopt a growth orientated diversified investment approach.
  - Ensure the family is looked after in the event of the death of the client(s).
  - Provide financial security in the event of injury or illness.
  - Optimise cash flow and financial position.
  - Ensure the clients' financial strategies are appropriate, costed and affordable.
  - Utilise appropriate tax-effective investment strategies.
  - Safeguard the clients' financial affairs via pro-active, professional advice.
  - Ongoing advice to manage the clients' financial plan.

3. Invest in line with the goals of the clients, risk appetite and timeframes, including:
- Obtaining exposure to the market allowing for magnified gains by implementing a gearing strategy.
- The prompt repayment of the clients' non-deductible debt.
- Access to actively managed investment vehicles that are diversified and matched to the clients' specific risk profile.
- Maintaining easy access to capital through liquid investments external from the super environment.

4. Provide projections in line with financial advice and chosen strategies, including:
- Pay off non-deductible debt.
- Meet lifestyle needs and retirement objectives.

Stay the course

As commodity prices continue to soften, many global economies face another challenging year chasing growth. And with emerging markets facing the brunt of this volatility, how do they now stack-up in an investor's portfolio? Janine Mace reports.

When it comes to emerging markets, the image of a small boat being tossed around on a rough sea often comes to mind.

It is one that seems likely to be repeated again this year, with many countries facing a rough ride as commodity prices continue to soften, strong growth remains elusive and currencies appreciate.

The World Bank's report, *Global Economic Prospects January 2015*, described the risks this way: "Growth in developing economies has slowed in recent years and significant downside risks remain, including slowdowns in major trading partners. In addition, financing costs are expected to rise from the current exceptionally low levels when monetary policy normalisation gets under way in some advanced economies."

Although valuable opportunities remain, successfully investing in emerging markets will be much harder this year, according to Alastair MacLeod, senior investment specialist at Wingate Asset Management.

"Macro drivers, such as US dollar strength and regime change in different countries, can be very important in emerging markets compared to developed markets. Emerging markets are very liquidity driven and they are not very large, so any big flows of money will move them around," he says.

Dramatic falls in commodity prices – particularly oil – since the end of US quantitative easing, are creating much greater performance dispersion, according to Simon Ho, chief investment officer for Grant Samuel's Triple3 Volatility Advantage fund.

"The collapse in the oil price will lead to a large bifurcation in both regional and country performance. Oil producers will not perform as well, but many emerging markets are oil consumers and will benefit, so caution is needed," he says.

Volatility means risk ahead

Although the US economy is reviving, Ho has concerns about whether it will be enough to offset slowing growth in China and Europe's lurch towards deflation.

"I'm not certain if the US is strong enough to compensate, so it will lead to greater levels of volatility.

Continued on p26

Emerging markets are the first place to feel higher volatility, as they are often afflicted by 'hot money'," he says.

Whipsawing markets will further fuel the performance bifurcation, making it essential for investors to do their homework. "Attention to the detail of individual countries and regions has never been more important, so emerging market experts will need to sharpen their analysis," Ho explains.

Brian Parker, the head of NAB Asset Management's portfolio specialists group, believes the environment surrounding these assets is increasingly complex. "The overriding thing is that real returns are very difficult to find, as share markets everywhere look fully valued and developed market bond yields are at all-time lows."

He agrees caution is required, despite emerging market price to earnings is not looking excessive. "However, some markets have done very well and are no longer very attractive. For example, you are being asked to pay up for Indonesian and Indian equities, versus Russia which is very cheap, but that may be for a very good reason."

In Parker's view, when it comes to both emerging market debt and equities, investors need to be "very, very selective" and look at the country, industry and stock level.

If the declining oil price, tighter monetary policy and growing volatility are not enough, investors also face the challenge of a stronger US dollar, to which many emerging market currencies are pegged.

Many emerging markets have already slowed due to their orientation towards manufacturing, MacLeod notes. "Their economies are mostly export-driven and are highly dependent on liquidity, so a rising US dollar is very bad for liquidity and therefore, not great for investors."

Danger signals for Australia

Other problems may also be brewing – particularly in China – where much of the recent growth has been courtesy of government supplied liquidity. As the economy there shifts gears from infrastructure and construction to services, ripples are washing across the global economy.

While slower Chinese growth is certain to impact emerging markets, the impact will also be felt by Australian investors.

"As the composition of growth in China starts to change, capital investment is starting to decline. This is pretty normal, but it has serious implications for some countries – especially Australia," says Parker.

Heavy dependence on iron ore exports leaves the local economy very exposed, which means local investors need to carefully consider the potential impact on their investments. "Australia is very vulnerable to this change in China and that is why we are seeing the impact on our GDP, share market and currency," he notes.

MacLeod agrees China's move away from infrastructure-driven growth is starting to have an impact domestically and urges investors to assess the potential implications for their portfolio. "The primary driver in the economy has been the resources boom, so investors need to look at the commonality in the risks."

Many Australian investors have been relying on the strong performance of local resources companies to boost investment returns, but with new supplies now at much lower marginal cost, high returns may well be a thing of the past.

Talking to clients

In light of the many questions surrounding the prospects for emerging markets, planners are likely to find themselves having some tricky conversations with clients – both those already invested offshore and those whose portfolios could benefit from this type of exposure.

"The message to clients should be to stay the course. For clients, it is valuable to have some exposure in the medium to long-term to emerging markets," Parker argues.

"You will see more volatility in both emerging and developed markets this year, as it is a fairly high risk environment, however, investors need to have a genuinely global perspective."

Despite the hazards, the solution is not to avoid emerging markets, as many clients are unknowingly facing more risk by remaining invested locally. "Australian investors are still massively overweight to Australian equities and the market is dependent on the performance of the banks and resources companies," he says.

"We have a very narrow market, so they need to diversify and get exposure to things like healthcare, big pharmaceutical companies or the global consumer brands that aren't here."

"Macro drivers, such as US dollar strength and regime change in different countries, can be very important in emerging markets compared to developed markets."

- Alastair MacLeod

What do planners think?

Encouraging clients to see the benefits of sending a small percentage of their investments offshore into rapidly growing emerging markets, has always been a difficult conversation to have.

Despite this, Paul Nicola CFP®, principal at Southbank Financial Services in Victoria, and David Kennedy CFP®, director advice and strategy at Hillross Pacific Advisory in North Sydney, believe it remains vital that clients understand the benefits.

Q: Are you currently recommending or including emerging market assets when you are developing portfolios for clients with an appropriate risk profile and wealth accumulation objective?

Paul Nicola (PN): Yes. It is very important though that it fits in with their investment risk profile.

David Kennedy (DK): Yes.

Q: How are you presenting the idea to clients and explaining their value?

PN: We talk about a tactical tilt and whilst the risk is greater, particularly in the short-term, there is a potential for outperformance compared to developed economies.

DK: In the current environment, we explain the merits of emerging markets exposures in the context of three main issues:

Relative valuations – Emerging markets are trading on a forward P/E of around 10 relative to a 15 in developed markets. While the US market again performed strongly in 2014, on a relative basis, valuations in the major Asian markets appear compelling.

Need for more thorough portfolio diversification – For SMSF clients in particular, the ongoing dialogue is about encouraging more thorough diversification of the portfolio in order that concentration in term deposits and too few Australian companies is reduced. Global equities is part of the solution and we see emerging markets as an important subset of that asset class offering attractive valuations, diversification benefits and exposure to economies and companies growing at an above-average rate.

Disparate economic growth trajectories – The forecast economic growth rate in the emerging world is more than double that of the developed economies. The International Monetary Fund is forecasting growth of 5 per cent in emerging markets in 2015, compared to just 2.3 per cent in developed markets, with China and India likely to do the heavy lifting. Whilst in the short-term we need to be careful in equating economic growth rates to market performance, over the longer term, 5 per cent GDP growth should ultimately create a favourable backdrop for share price appreciation.

The very nature of emerging markets dictates that many are taking proactive steps to reform and deregulate markets to create an environment that is conducive to innovation, efficiency and growth. In many cases, they are learning from the experience of the West and are able to accelerate their growth as a result.

Q: Are clients less willing to consider these types of investments in light of the renewed market volatility?

PN: Market volatility is naturally a concern for some investors, however, our job is to ensure that our clients have the profile and timeframe to see out any short-term volatility. Further to this, we only use these investments as a tactical tilt and they are unlikely to represent any more than 5 per cent of a client's portfolio.

DK: In some cases there is a degree of caution, which varies depending on the client's risk profile. In periods of heightened volatility, clients are naturally cautious and in the case of emerging markets, clients are increasingly interested in understanding their underlying holdings by region. There is also heightened awareness of country-specific and geopolitical risks that can affect portfolios. We outsource stock-specific decisions, but we do influence the weighting to emerging markets generally and to a lesser extent, the allocation or otherwise to specific regions.

December was a good example of divergent outcomes for the various BRIC members. Brazil and Russia saw significant selling, as they are more vulnerable in an environment of falling energy prices. China does well under those conditions and its market outperformed as a result. While the oil price decline is potentially disastrous for Russia, lower energy prices provide a tailwind for the major Asian economies.

Q: Given current market uncertainty, what has been your message to clients already invested in emerging market assets?

PN: Now is not the time to move, unless there are compelling personal reasons. With the right advice, clients should have enough liquidity in their portfolios to be able to see out any short-term fluctuations in values, particularly where the investment represents only a small part of their portfolio.

DK: It is important to distinguish between the prospects for the various regions and to take account of country-specific risk. We are being more targeted with exposures by region. We emphasise the long-term growth

David Kennedy

potential of emerging markets, the diversification benefits and the valuation fundamentals that justify holding a position.

Q: Are clients concerned about the potential implications for their Australian investments from the slowdown in the Chinese economy?

PN: Whilst the Chinese economy has slowed in terms of percentage growth, its growth in terms of total output is greater than it was only a few years ago, as it is growing from a much larger base. Once again, this highlights the need to ensure our clients' portfolios are diversified and are aligned to our clients' risk profile and investment timeframes.

DK: Yes. Clients are seeking to ensure their portfolio evolves in response to what is happening in the global economy. Given the composition of our indices, they are seeing the very real short-term effects of a Chinese slowdown on portfolios. Given the recent deterioration in commodity prices and the impact on our major resources companies, clients are also recognising the risk that accompanies a concentrated reliance on Australian equities in portfolios.

Our approach is one of thorough diversification across and within asset classes, so we are actively reducing concentration risk, but challenges remain, given the volatility that is likely to characterise the local market in 2015.

ANNA MIRZOYAN
FIDUCIAN PORTFOLIO SERVICES

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Home Reversion Scheme**
- **Reverse mortgages**
- **Pension Loans Scheme**

Accessing equity in the family home – tips and traps

Home Equity release products generally allow people over the age of 60 to access the equity in their home. These products offer asset rich but income poor homeowners the option to access the equity they have built up in their home to improve their standard of living in retirement or to cover immediate lump sum expenses.

Home Equity release products currently offered in Australia include:

- A Home Reversion Scheme (only available in certain areas in Sydney and Melbourne); or
- A reverse mortgage.

In addition to these products, the Department of Human Services also offers equity loans to homeowners entitled to part Income Support payment due to the level of their income or assets (but not both). This arrangement is known as a Pension Loan Scheme.

The following article explains the details of Home Equity products available in Australia.

What Is a Home Reversion Scheme?

A Home Reversion Scheme is where the homeowner sells a proportion of the equity (up to 65 per cent of current value) in their home and receives a lump sum in exchange for the fixed proportion of the future value of their home. The lump sum paid to the homeowner upfront is usually discounted to reflect their age and life expectancy, as these factors determine the timing and the amount the scheme provider will receive for their share of the future value of the property.

It is important to note that the homeowner retains the right to live in the property for as long as they wish. The scheme provider becomes entitled to its purchased share when the home is eventually sold either by the homeowner or their estate.

For example, assume the property is valued at $500,000 and the homeowner sells 50 per cent of the future value of the property to a scheme provider. Although 50 per cent of the current value of the property equates to $250,000, the homeowner will only receive a discounted sum that might range from $87,500 to $162,500, depending on their age.

The homeowner does not need to make repayments on the lump sum received upfront while they live in the property. When the property is sold, the homeowner or the executor of the estate has to give a portion of the proceeds to the scheme provider. If 20 years down the track your property sells for $1 million, the provider would get 50 per cent of this amount, which will equate to $500,000.

Home Reversion Schemes are not very common in Australia and are only available in certain areas in Sydney and Melbourne.

What Is a reverse mortgage?

A reverse mortgage is an equity release product where the homeowner uses the equity in their home as security to borrow money. Reverse mortgages are the most common equity release products in Australia.

Whilst there are variations in the product features in the marketplace, generally, repayments and product fees can be capitalised on the loan and therefore don't require the borrower to make any repayments (principal or interest). The effect of compounding interest and product fees is that the loan value can rapidly increase over time resulting in a reduction in the borrower's equity.

The amount that can be borrowed against the property also varies between product providers and is generally restricted to a maximum of 40 per cent of the property value. Interest rates are also higher than standard home loan rates.

The size of the mortgage that is available to the homeowner depends on the amount of equity they have in their property and the age of the youngest applicant. If there is a

current loan or mortgage on the property, this will generally be paid out by the provider of the reverse mortgage.

Importantly though, once the homeowner decides to sell or the last surviving borrower passes away, the outstanding loan (which includes compounded loan repayments) must be repaid.

Vital features of a reverse mortgage

While features may vary from one product to another, there are two vital features that widely apply to reverse mortgages. Regulations were introduced in September 2012 which means providers of reverse mortgages must now offer an important feature, known as a 'No Negative Equity Guarantee'.

The 'No Negative Equity Guarantee' is a vital feature where a reverse mortgage loan is being considered, as it ensures that the homeowner (or their estate) can never owe more than the value of the home, no matter how long they stay in the home.

However, the guarantee is dependent on the borrowers meeting certain terms and conditions of the loan, such as keeping the home insured and well maintained.

Another important feature that is available to most reverse mortgages is the 'Protected Equity Option'.

The Protected Equity Option allows homeowners to ensure they retain a portion of the home's future value upon its sale. This feature can be particularly attractive where the homeowner is concerned about leaving an inheritance.

The Protected Equity Option ensures the family will receive a pre-determined amount of the equity, regardless of what happens to the balance of the loan or property prices in the future. However, by taking out the Protected Equity Option, the maximum amount that the homeowner can borrow will be reduced.

For example, if the homeowner wants to ensure that the beneficiaries of their estate receive 20 per cent of the future sale price of their home, they need to choose a Protected Equity Option of 20 per cent. However, by doing so, the homeowner will reduce the maximum amount they are eligible to borrow by 20 per cent.

Compounding interest charges

In an environment of rising interest rates, borrowers need to be aware that the compounding effect of interest charges and fees capitalised can cause the loan to balloon to unforseen levels in a very short period of time.

For example, at an interest rate of 8 per cent per annum, a $50,000 loan could become $74,000 in five years or $111,000 in 10 years. At 9 per cent per annum, a $50,000 loan would become a debt of approximately $78,000 in five years and $122,000 in 10 years.

The estimates[1] above are based on no establishment fee and no ongoing product fees or changes and as such, the amount owing would be even higher than estimated if the product provider charges an establishment fee and/or ongoing fees and charges.

Who are equity release products appropriate for?

Equity release products may be appropriate for retirees who have equity in their home and would like to increase their standard of living.

In addition, equity release products may also benefit those who:

- Need urgent access to money for a special purpose, such as medical expenses, travel, home improvements or the purchase of a vehicle; and/or
- May be considering downsizing to improve their cashflow in retirement but would prefer to stay in their home if possible.

It should be noted that by taking out an equity release product, additional issues arise such as:

- Equity release products can impact the value of the estate left behind. It is possible that there will be no equity left in the property when it is eventually sold. Therefore, it is important to involve the immediate family in the discussion when considering taking out an equity release product.
- There may be periods of time where properties actually decrease in value, which will result in a reduction of the value of the remaining equity.
- For most home equity release products, the homeowner must pay the council rates on time, ensure the home is insured at all times and maintain the property in good condition.

The application assessment and approval process

Based on ASIC Regulatory Guide 209 (Credit Licensing: Responsible Lending Conduct), credit providers must take the following actions before approving the homeowner's application for home equity release:

- Make reasonable enquiries about the homeowner's financial situation, requirements and objectives in meeting possible future needs (such as possible future aged care needs and/or the impact the credit will have on the estate);

Continued on p30

When an equity release product is taken out against real estate owned by a client, it is important to be fully aware of the possible consequences now and also in the future.

- Take reasonable steps to verify the information that must be taken into account when making the required equity projections (such as the applicant's current financial situation);
- Decide whether the credit contract is 'not unsuitable' for the applicant.

Credit assistance providers must make the preliminary assessment and credit providers must make the final assessment that the credit contract the homeowner is applying for is 'not unsuitable' before they offer any credit to the homeowner.

In addition, ASIC Regulatory Guide 209 also suggests using the reverse mortgage calculator approved by ASIC for making equity projections and loan value projections when making these assessments. The reverse mortgage calculator can be accessed at www.moneysmart.gov.au. Care must be taken, as equity projections may prompt further discussion with the homeowner in relation to their requirements, objectives and their possible future needs.

Income support payment

If an income support recipient enters into a contract with a credit provider to release the equity in their home, the amount drawn or the amount received in a lump sum is not counted as 'income' by Centrelink or by the Department of Veterans' Affairs (DVA). However, this amount may be subject to means tests when the amount is held as a financial investment.

In general, when the reverse mortgage is drawn down in small amounts or periodical payments and used to meet everyday living expenses, then it should not affect the borrower's eligibility for income support payments.

If, however, it is accumulated or the entire amount is drawn as a lump sum, then it may have an impact on the borrowers' entitlement to income support payments.

Where a large amount is drawn, Centrelink and the DVA allow up to $40,000 to be exempt from assessment for up to 90 days. After that period has elapsed, the entire amount (if unspent) will be subject to means tests.

For example, if a person takes out a reverse mortgage of $80,000 and leaves the proceeds in the bank account, then:

- The first $40,000 is exempt from the Centrelink/DVA means tests for 90 days; and
- The remaining balance of $40,000 would be counted towards the means tests from the day the funds are received.

Once the 90 days has elapsed, then the whole balance of $80,000 (if it remains unspent) will be subject to the Centrelink/DVA means tests.

The homeowner status under the assets test will not be affected by taking out a home equity release product.

Pension Loans Scheme

An alternative for reverse mortgages or home reversion scheme products may be the Pension Loans Scheme offered by the Department of Human Services.

The Pension Loans Scheme is a voluntary arrangement, which provides support in the form of a loan, for a short or indefinite period. Pensioners must secure the Pension Loans Scheme loan with real estate owned in Australia. The pension is paid in regular fortnightly, non-taxable installments.

Under the Pension Loans Scheme, people of age pension age (or their partners) who are not entitled to an income support payment because of their level of income or assets (but not both), or those who only receive a part payment, can nominate to receive an amount, up to the maximum amount of Age Pension including available supplements, each fortnight.

The following qualifying payments allow access to top up payments under the Pension Loans Scheme:

- Age Pension;
- Disability Support Pension;
- Carer Payment;
- Widow B Pension;
- Wife Pension; and
- Bereavement Allowance.

The Pension Loans Scheme is not available to people who are paid the maximum rate of pension.

It is important to note that all costs associated with establishing and finalising the loan, including legal costs, are covered by the income support recipient. These costs can be paid upfront or can be added to the outstanding loan balance. Interest charged on the outstanding loan balance is compounded and is applied each fortnight. However, the rate of the interest charged is significantly lower when compared with the rate of interest charged for commercial equity release products. The outstanding loan balance consists of the principal loan amount, accrued interest, outstanding costs less any repayments made.

The total amount of the loan depends on the value of the property offered as security, the amount of equity the income support recipient wishes to keep in the property (also known as a 'guaranteed amount'), and their age at the time the loan is granted. The 'guaranteed amount' is an agreed amount of money set aside from the value

of the property offered as security for the loan. It is the minimum amount the income support recipient or their estate will receive after the repayment of the loan, when the property is sold.

Conclusion

When an equity release product is taken out against real estate owned by a client, it is important to be fully aware of the possible consequences now and also in the future. The possible consequences may include the compound effect of interest charges in the long-term, the impact of capital drawdowns on the homeowner's entitlement to Government benefits and payments, the impact of the arrangement on the estate and so forth.

Alternatively, the Pension Loans Scheme offered by the Department of Human Services may be appropriate for people of Age Pension age who receive, or could receive, some pension under the income or the assets test to maximise their payment up to the maximum amount of the Age Pension, including available supplements.

Anna Mirzoyan, Technical Services, Fiducian Portfolio Services.

Footnotes

1. Source: ASIC's Reverse Mortgage Calculator at www.moneysmart.gov.au with fixed interest rate of 8 per cent and 9 per cent per annum compounded monthly, assuming no fees are charged and no repayments are made throughout the life of the loan.

QUESTIONS

1. Home equity release products are not suitable for:

a. An individual over the age of 60 who wishes to top up their cash reserves.

b. An individual (aged 60 and over) who requires urgent access to money for a special purpose.

c. An individual (aged 45) wishing to maximise their retirement savings.

d. An individual (aged 70) who is considering downsizing the family home to free up additional capital to fund retirement.

2. Which of the following actions must be completed during the application assessment process when determining the homeowner's suitability for a home equity release product?

a. Making reasonable enquiries about the homeowners' financial situation, requirements and objectives in meeting possible future needs.

b. Verifying the information provided by the homeowner.

c. Determining whether the credit contract is 'not unsuitable' for the applicant.

d. All of the above.

3. What impact does the release in home equity have on a homeowner's entitlement to Government income support payments?

a. The individual will be assessed as a non-homeowner under the Assets Test following the approval of the credit contract.

b. The release of home equity (in lump sum or instalments) does not have an impact on an individual's entitlement to Government income support payment.

c. The first $40,000 of an unspent home equity loan is exempt from the means tests for 90 days. The remaining balance would be counted as a financial asset from the day the funds are received.

d. The first $40,000 of an unspent home equity loan is exempt from means tests indefinitely.

4. The Pension Loans Scheme offered by the Department of Human Services may be appropriate for:

a. People of Age Pension age, who currently receive part Age Pension to maximise their entitlement up to the maximum amount of the pension.

b. A 58-year-old person who is in receipt of the Newstart allowance and wishes to top up their cashflow.

c. People of Age Pension age, who are not eligible for any Age Pension under the Income Test and Assets Test.

d. A young family who is in receipt of Family Tax Benefits A, to support their children's education.

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MLC TECHNICAL SERVICES

THIS ARTICLE IS WORTH
0.50 POINTS
CRITICAL THINKING

Includes

- **Regulation 4.07D**
- **Limited Recourse Borrowing Arrangement**
- **Insurance inside and outside an SMSF**

Implications of the ATO's views on insurance for SMSFs

The purpose of this article is to outline the potential implications of the Australian Taxation Office's (ATO) recent views on cross-owned insurance for SMSF trustees who have or wish to use limited recourse loans.

A simple change to the *Superannuation Industry Supervision Regulations* (SISR) has taken effect which restricts the types of new insurance policies that superannuation fund trustees can purchase on or after 1 July 2014.

This change has had unexpected consequences for SMSF trustees who wish to own insurance:

- as part of a formal cross-insurance arrangement; and
- potentially to simply address cash flow and/or debt considerations where there is a limited recourse borrowing arrangement (LRBA) in place.

The ATO recently published observations on the application of the regulation, which has the potential to limit the types of insurance strategies that trustees can adopt in these circumstances and remain within the ATO's view of the application of the regulation.

While the ATO's view of the operation of the regulation has not been legally tested, they support their view by reference to the Explanatory Memorandum (EM) that accompanied the new regulation.

An EM can be used by the Courts in very specific circumstances to assist in the interpretation of the legislature's intended application of the regulation. How successful the ATO might be in taking this line of argument is one for the Courts to decide, should the opportunity arise.

In the meantime, what might this all mean for SMSF trustees who have or wish to put in place certain insurance arrangements to address insurable events should they occur, especially when an LRBA has been entered into to purchase significant assets, such as residential or business real property?

The best place to start is the new regulation itself and the ATO's published views of the intended operation of the regulation.

The new regulation

Regulation 4.07D of SISR was introduced as a consequence of a recommendation made in the Cooper Review into the superannuation industry to change the rules around insurance ownership in superannuation. The idea was that trustees should only own insurance policies that provide an insured benefit to members or their dependants that satisfy certain specific conditions of release on the happening of an insurable event.

The insurable events listed in the new regulation that are an acceptable condition of release are death, a terminal medical condition, permanent incapacity and temporary incapacity. The fact that a member may satisfy another condition of release, such as retirement after preservation age, would not appear to be relevant nor satisfy the requirements of this regulation.

It is worth noting that permanent incapacity is defined in Regulation 1.03C of SISR as "ill health (whether physical or mental) that makes it unlikely that the member will engage in gainful employment for which the member is reasonably qualified by education, training or experience". In other words, only 'any occupation' total and permanent disability (TPD) policies satisfy the requirements of the regulation going forward for new policies purchased on or after 1 July 2014.

The consequences are that both new trauma and 'own occupation' TPD policies cannot

be purchased by trustees from 1 July 2014, as neither satisfy an appropriate condition of release in all circumstances.

Importantly, it is also clear that insurance policies purchased prior to 1 July 2014 that provide benefits to members who joined an SMSF prior to this date are grandfathered.

This means that whatever potential member benefits were envisaged and put in place by trustees prior to 1 July 2014, which were to be funded by insurance policies purchased by trustees prior to that date, are still acceptable member benefits, even if the insured event occurs after 1 July 2014.

The ATO's position

The ATO has recently published views on the application of the new regulation in a Q&A section for SMSFs on the ATO website which has the potential to substantially extend the operation of the new regulation.

In particular, it states that "the Explanatory Memorandum…. makes it clear that the proceeds of an insurance policy must be released to the member who is insured under the policy".

This statement has the potential to have a much wider impact than the limited context in which it was asked by the ATO, which was in relation to cross-insurance arrangements.

Cross-insurance arrangements are those where a member, other than the insured member, pays the premiums for the policy from their member account. On the happening of the insured event, that member (and not the insured member) has the proceeds of the insurance policy credited to their member account.

Provided that the proceeds were credited to that member's account, it was possible that they could remain in the SMSF until such time as the member satisfied a later condition of release without risking a breach of the sole purpose test. The rationale being that the ultimate retirement purpose for that member had been met, even though at a later date than the happening of the insured event.

Implications of the ATO's position

Cross-insurance arrangements have been specifically addressed by the ATO pronouncements. However, there potentially may be other arrangements where another member or members, other than the insured member, receives the benefit of the insurance proceeds being credited to their account either directly or indirectly.

Issues could arise, for example, where an SMSF trust deed provides that the trustees of the SMSF have full discretion as to the application of the proceeds of an insurance policy they own on the life of one of the members of their SMSF.

These types of clauses were introduced into the trust deeds of many SMSFs as a way to give flexibility to trustees who had put in place LRBAs to purchase predominantly real property in the fund, when faced with the death or permanent disability of a member.

Alternatively, they also gave trustees an option to use insurance proceeds to fund the payment of anti-detriment payments in the event of a member's death. Other strategies have simply sought to credit the member accounts of the surviving members of the SMSF.

In these scenarios, the insurance proceeds are not necessarily "released to the member who is insured under the policy" as a matter of course.

The trustees may, of course, decide to add the insurance proceeds to a member's account and pay the amount out as part of a larger member related benefit, but they may not.

Alternatively, they may choose to fund a member's benefit using the insurance proceeds, but not increase the value of the member related benefit by the amount received.

The question is whether all these potential decisions around the use of insurance proceeds by SMSF trustees are likely to also attract the disapproval of the ATO in its role as SMSF regulator.

If the ATO applies the same rationale to these arrangements where the insured member's account is not credited with the value of the insurance proceeds as they did in relation to cross-insurance arrangements, the answer is highly likely to be in the affirmative.

So what strategies are likely to be acceptable to the ATO going forward in the LRBA context that can be implemented by SMSF trustees without any concern of attracting the disapproval of the regulator?

Equally, what strategies are now potentially in doubt and are there alternative strategies that can be implemented to broadly achieve trustees' objectives?

Insurance policy owned by the SMSF trustees

In the context of an SMSF entering into an LRBA strategy, life and TPD insurance owned by the SMSF trustees is increasingly being used to address estate planning concerns if a member of the SMSF, who has borrowed, should die or suffer permanent disability.

The cash flow shortfall and related consequences can be quite serious and the requirement to make a benefit payment in the event of the death or permanent disablement of a member can greatly complicate matters.

Clearly, any arrangement that results in the trustees of the SMSF crediting the account of the deceased or permanently disabled member with the proceeds of any insurance policy owned by the trustees on the life of the deceased member will be acceptable to the ATO.

It is helpful to consider the effectiveness of this arrangement in two distinct scenarios, being 'mum and dad' funds and funds where business partners are in the same fund together. Business partners in this context can be unrelated parties, adult siblings or possibly parents and adult children in business together.

Continued on p34

We will consider the issues around life insurance specifically, although similar issues arise for permanent disability as well.

Assumptions made

Where an SMSF has borrowed to purchase business real property used in a related family business or simply residential property, one obvious solution in the event of the death of a member of the fund is to simply sell the asset and unwind the gearing arrangement. The balance of the proceeds is then used to make appropriate death benefit payments to dependants.

However, especially with business real property used in the family business, it may not be appropriate to sell the asset to an unrelated party. In many instances, the best result will be to maintain the asset as an SMSF asset and use insurance to deal with the trustee requirements to make death benefit payments.

It is this 'best case' scenario which will be examined in the light of the ATO position discussed above.

Land tax and stamp duty issues are not considered in the following paragraphs and their relevance should also be assessed in any solution being considered.

'Mum and dad' funds

This term is colloquially used to describe funds where a husband and wife are the sole members of the fund. However, the issues that apply here are equally relevant to any SMSF which has as sole members a couple who are legally married or in a de facto relationship with a person of the opposite or same sex.

This is because in the event of the death of their partner, the surviving member is entitled to receive either a lump sum or income stream as a result of the death.

The crediting of the deceased member's account with the proceeds from an insurance policy owned by the SMSF trustees on their life can facilitate a number of different solutions for the surviving member/spouse when it comes to dealing with the obligation to pay a death benefit and the need for them to retain control of the business real property owned by the SMSF.

1. While the value of the insurance proceeds should be credited to the deceased member's account, the cash proceeds received can be used to discharge some or all of the debt of the SMSF. The net value of the fund remains unchanged, but the asset originally acquired using the borrowing arrangement is now completely or substantially unencumbered.
2. With no or a reduced debt to service, cash flow is improved, such that a death benefit pension may now be able to be paid to the surviving member/spouse. This allows the asset to remain as an asset of the SMSF, which in many instances is the most desirable result for the client.
3. The insurance proceeds are used to fund an income stream to the surviving member/spouse, while the debt remains in place to be serviced by cash flow. Again the asset remains an asset of the SMSF for the time being at least, subject to longer term funding requirements in relation to meeting debt obligations being addressed.
4. Should the asset be unencumbered, a death benefit lump sum could also be made as either a full or partial in specie death benefit lump sum payment. While this will result in the partial or full transfer of title in the asset out of the SMSF, which is not ideal in many circumstances, it may be acceptable if the surviving spouse is involved in the business either directly or indirectly. Capital gains tax may also be an issue that would need to be addressed.

Business partners

Owning insurance inside an SMSF where business partners are members of the SMSF in order to deal with the death of one of the members of the SMSF has never been ideal, especially where an LRBA arrangement has been undertaken as well.

The ATO's views around the crediting of insurance proceeds to the deceased member's account have only made this set of circumstances even less attractive. This is because the value of the insurance proceeds increases the value of the death benefit, which must be paid to the former business partner's dependants and so does nothing to solve the cash flow or debt situation.

It would certainly appear that the flexibility of trustee discretion to solve this problem may not be available given the stated ATO views.

Certainly the last thing that surviving business partners want is to be involved with the surviving spouse of their former deceased business partner. This may come about in these circumstances because the surviving spouse now has a legal interest in the business real property, as some or all of the legal interest in the property has been transferred as a death benefit lump sum.

Alternatively, they may be receiving a death benefit pension from the SMSF. This has its own complications, as this makes them not only a member of the fund (as they are a pensioner of the fund) but also a trustee of the fund.

As such, they may have an influence over decisions around the maintenance of the property asset and even possibly whether the SMSF should retain the property as an investment. If there is no alignment with the surviving spouse and the business which uses the property, conflict may well result.

Alternative arrangements other than owning insurance inside super for business partners

Holding insurance outside an SMSF on the lives of business partners may provide an acceptable alternate solution, depending on the amount of debt in the SMSF, the cost of premiums and the insurability of the parties involved and other restrictions, such as contribution caps and earlier contributions made.

Legally enforceable agreements

may also need to be in place to ensure in the event of the death of a member and the receipt of the insurance proceeds on a policy privately owned by the surviving business partners, those proceeds are used to either make contributions to the SMSF or purchase the property from the SMSF, in order to provide liquidity in the SMSF to meet benefit payment requirements.

The benefit of either scenario is that the deceased member's account balance is not increased by the insurance policy proceeds, as the policy is not owned by the trustees of the SMSF. It is acknowledged that it is usually better to have the asset remain in the SMSF. However, contribution cap constraints may not make this a feasible option and the asset may need to be sold to the surviving business partners.

Another solution may be to introduce new members by way of rollover in the fund, thus providing cash flow without relying on insurance arrangements at all.

Private unit trusts

An alternative to acquiring assets directly using LRBA strategies is to use private unit trusts.

While beyond the scope of this article, they are particularly useful where there are unrelated business partners who wish to pool assets to purchase business premises.

When SMSFs are added to the equation as unit holders, the impact of the in-house asset rules must be carefully managed, so as to avoid the application of this restrictive rule.

This is especially the case where related parties are involved in the transaction, as their interests in the unit trust are combined to determine the application of the in-house asset rules. Specialist advice on these types of structures should be sought before implementation of the arrangement.

The same can also be said for private unit trusts wanting to avail themselves of the protection of regulation 13.22C of the SIS Regulations in order to avoid the application of the in-house asset rules.

Conclusion

While the ATO's view on the appropriate crediting of insurance proceeds within a superannuation arrangement are currently restricted to cross-insurance arrangements for now, there are wider implications for other insurance arrangements within SMSFs.

This is especially so where they are designed to deal with estate planning issues should a member of the SMSF die or become permanently incapacitated.

Trustee discretion as to the allocation of insurance proceeds is now common within the rules of many SMSFs. That discretion may be substantially curtailed if the ATO's view is to prevail and the options open to trustees limited.

Peter Hogan is Manager SMSF Advice at MLC Technical Services.

QUESTIONS

1. SISR changes that recently took effect:

a. restrict the types of new insurance policies that superannuation fund trustees can purchase on or after 1 January 2015.

b. have had unexpected consequences for cross-owned insurance arrangements.

c. have been considered by the ATO via an Interpretive Decision.

d. allow SMSFs to acquire new 'own occupation' TPD policies, but not trauma policies.

2. Cross-owned insurance arrangements are those where a member, other than the insured member, pays the premiums for the policy from their member account and the insurance proceeds are paid to the insured member's account when an insured event occurs. True or false?

a. True.

b. False.

3. With new arrangements where the trustees of an SMSF have used an LRBA to acquire a property, owning insurance policies on the lives of the members would generally be the preferred approach:

a. where the members/trustees are business partners.

b. where the members/trustees are related.

c. where the members/trustees are husband and wife and are aware of the issues that can arise when a member dies or becomes totally and permanently disabled.

d. regardless of the relationship between the members/trustees.

4. Where the members/trustees are business partners, holding insurance outside the SMSF on the lives of the business partners:

a. may be an acceptable alternative to having the policies owned by the fund trustees.

b. a legally enforceable agreement may be needed to ensure the intended outcomes are achieved.

c. contribution cap constraints would need to be considered.

d. All of the above.

Quarterly Complaints – October to December 2014

Disciplinary Activity Summary

In the December 2014 quarter, the FPA received five new complaints, finalised nine investigations and has seven ongoing investigations.

Of those ongoing investigations, two continuing matters were referred to the FPA's Conduct Review Commission (CRC) as being potential breaches of the FPA's professional expectations, with a Notice of Disciplinary Breach issued for one and a decision to issue an Infringement Notice in the other. The CRC approved Summary Disposal discussions with a member relating to an ongoing matter. The CRC determination in the matter of Robert (Bob) Jones was also finalised in this quarter, resulting in the member's expulsion from the FPA.

COMPLAINTS AND DISCIPLINARY REPORT
October to December 2014

Investigations ongoing as at 30 September 2014	11
New investigations	5
Investigations closed	9
Investigations ongoing as at 31 December 2014	7
Members suspended	0
Members expelled (CRC) • Robert (Bob) Jones	1
Members Terminated (Constitution)	0
Other Sanctions (CRC) (infringement notice – fine)	1
Referred to Professional Designations Committee for Sanction	3

Case Study – Bob Jones Determination

The complaint was referred to the CRC on the motion of the FPA's Investigating Officer, as a result of a complaint received by the FPA from clients of Robert (Bob) Jones, a member of the FPA. The clients complained they received inappropriate financial advice which was not suited to their needs and was not based on sufficient information about their personal circumstances and risk preferences. Jones was at that time an authorised representative of Storm Financial, an Australian Financial Services Licensee.

The clients, a couple both aged about 60 years, had a retirement asset base (minus their unencumbered home and motor vehicles) of $192,000 when they implemented the double geared strategy recommended by Jones in 2006. The clients' investment purposes were:

i. one to retire at 65 years (July 2010), and to reduce working hours in the year before, and the other to retire at the same time or before;
ii. both to be self-funded retirees;
ii. have overseas holidays, and go to shows and events;
iv. purchase a new car on retirement; and
v. cover living expenses of approximately $30,000 per year.

At the time of their last borrowing in June 2008, the clients owed banks a total of $643,408. The clients ultimately suffered devastating financial loss, including their home and their entire retirement asset base.

At an early point in the FPA investigation, the FPA received a letter from Jones purporting to resign from his membership. The FPA replied, declining to accept Jones' resignation, and citing clause 14 of the FPA constitution that the FPA cannot accept a member's resignation if an investigation has already been initiated.

Due to certain events, the clients withdrew from the complaint at a late stage, having assisted the FPA Investigating Officers in the collection of documents, providing accounts of information and advice given by Jones at meetings and explanations of transactions undertaken on that advice. Separate to this, the FPA's Investigating Officer had obtained from the liquidator of Storm a copy of the records that Storm kept in relation to the clients. The FPA continued proceedings in the absence of the clients as complainants.

After investigation and correspondence between the FPA and Jones, it was alleged that Jones had a case to answer under the FPA's Code of Ethics and Rules of Conduct. The case to answer alleged breaches of the Ethics and Rules as follows:

- Rule 108 – Jones failed to collect sufficient information to ensure that in making oral or written recommendations to clients he gave appropriate advice.
- Rule 110 – Jones provided an unsuitable financial strategy or plan for the clients.
- Rule 6 – Jones failed to ensure that his conduct did not bring discredit to the financial planning profession.
- Rule 127 – Jones failed to co-operate with the FPA in all aspects of any investigation or compliance review.

The member's position

Jones was provided repeated opportunities to respond to the Breach Notice issued to him and chose not to respond. Jones was also provided notice of the hearing date, and chose not to respond or attend (personally or via a representative).

The first substantial intervention in the matter by Jones occurred by letter in July 2014. The letter was from the solicitors Jones retained to respond to the draft of the CRC determination, sent to him by the FPA. Through that letter, Jones denied the allegations made against him on all counts; he gave no particulars of fact or law on which to base those denials.

Legal questions considered

The CRC considered a number of legal questions in this matter including:

- Was Jones a member of the FPA?
- The withdrawal of the clients as complainants and the substitution of the FPA; the FPA's power to bring

and Discipline Report

proceedings against Jones.

- The reliance on documentary evidence, not complainant's testimony.
- Legal points relating to imposition of sanctions: penalties and defamation.

Outcome and Sanctions

The CRC found, among other things, that Jones remained a member of the FPA, the FPA's proceedings were properly constituted and that Jones had breached the four above mentioned rules. The CRC provided the following reasons for imposing the maximum penalty.

The first being the degree of culpability, by comparison with other members before the CRC in the past, who had recommended the highly geared Storm strategy. In the case of Jones' recommendations to the clients, it was unarguable that the strategy recommended was unsustainable, and would have collapsed at some relatively near point in time (regardless of the GFC). This was particularly because the clients were required to make large and ongoing financial contributions to the strategy, even after retiring, for which there was no obvious source, even before retiring. The worksheets appended to the SoA and subsequent SoAAs set this out in damning detail.

The second reason was the combination of incompetence demonstrated by such departures from the usual standards of conduct, with the complete lack of insight demonstrated by the member about this degree of incompetence. The character and tone of the correspondence between the member and the Investigating Officer showed no abatement of this lack of insight by the member into his own failings.

His correspondence displayed a combination of denial and derision of the CRC's proceedings and those who carry it forward. Jones showed no empathy with his clients and preferred to blame others.

In short, the panel concluded Jones was not open to assuming responsibility for his conduct or learning from his mistakes. This second conclusion was underlined by the determined refusal to co-operate with the FPA's request for information and materials throughout the proceedings, capped off by refusing to attend the CRC's hearing.

Finally, the CRC determined to impose the maximum sanctions on the member because, to again quote the practitioner members of the panel, *'this is demonstrably the worst financial advice we have been called to review. The sanctions have been decided by reference to sanctions in other like matters we have decided'*.

Accordingly, the CRC imposed the following sanctions on Jones:

a) that he be expelled from the FPA and return to the FPA all indicia of his membership and refrain from holding himself out as a member or as being qualified by any of the marks, and so forth, of the FPA;
b) that he pay the costs of the proceedings in the amount of $1,760;
c) that he be fined the amount of $20,000 for breach of Rule 110;
d) that he be fined the amount of $15,000 for breach of Rule 108;
e) that he be fined the amount of $20,000 for breach of Ethic 6; and
f) that the determination be published in full, including the member's name.

Jones was expelled from the FPA on 21 October 2014.

Academic misconduct

The December quarter saw three academic misconduct matters referred to the Professional Accountability team for investigation. One of the matters related to plagiarism and two related to collusion. These are defined in the academic misconduct policy (contained within the Student Handbook) as:

- **Plagiarism** – Failure to cite a source used, thus attempting to disguise these as one's own work. Any source document must be honestly and meticulously acknowledged. All sources should be referenced at the appropriate point in the text, as well as form part of a list of references or a bibliography at the end of the assignment.
- **Collusion** – The forming of groups to share ideas and define the requirements of assignments is an accepted and encouraged academic practice. However, it is neither acceptable nor ethical for members of the group to submit answers/parts of assignments, which are substantially similar or identical work to the work of others. All work submitted for assessment must represent an individual's own interpretation of any discussion or projects undertaken in the group.

Under Part 17 of the FPA Disciplinary Regulations 2011, the Investigating Officer may receive and prepare factual reports concerning allegations of academic misconduct. Such reports shall include a recommendation as to whether in the opinion of the Investigating Officer, the student has a case to answer in respect of an allegation of academic misconduct.

Investigations will include a review of all the relevant detail, including the assignment in question, an interview and written response from the respondent. Allegations of academic misconduct are heard and determined by the FPA Professional Designations Committee. Depending upon the circumstances and details of the academic misconduct, the committee can impose the following range of sanctions:

- Reprimand the student.
- Record a failure for all, or any part, of the assessment.
- Require the student to repeat the unit.
- Suspend the student from enrolling for a certain period.
- Suspend the student from enrolling in a certain course.
- Impose a combination of the above penalties.
- Advise that the student discontinue the CFP program.

In these matters, the committee made the following determinations:

- Student 1 – recorded a failure of the assessment and is required to repeat the unit.
- Students 2 and 3 – recorded a failure of the assessment and both suspended from enrolling for a certain period.

Centrepay and the new Deduction Statement

Centrepay is a voluntary bill-paying service that is free for people who receive Centrelink payments.

Through Centrepay, individuals can have regular amounts deducted from their Centrelink payments to pay their bills and meet ongoing expenses, such as rent, utilities and education.

Instead of having large bills every month or quarter, clients' bills are paid in manageable amounts, direct from their Centrelink payments, making it easier to budget.

This service is used by over 600,000 Centrelink clients and actively supported by over 13,000 businesses across Australia. It can be incredibly valuable for a wide range of people who are receiving welfare support and face regular accommodation, utilities and other living costs.

Target amounts

A feature of Centrepay is that target amounts can be set up against certain Centrepay deductions. Clients can pay third party organisations a specified, set amount. When the total of deductions reaches the nominated target amount, deductions automatically cease and the Centrelink client is advised in writing.

This means the individual does not have to worry about ceasing the deduction arrangement when the time comes and the bill is paid. It is already done for them.

The new Deduction Statement

A Deduction Statement was made available on 14 June 2014 to assist clients keep track of and check their Centrepay deductions. On the Deduction Statement, people can view their next regular payments, any money being deducted from their payments and the money they will have remaining (going into their bank account) in any given fortnight.

The statement can include some or all of the following:

- weekly payments (for customers receiving their payments weekly);
- Centrepay deductions;
- participation penalty amounts and non-payment periods;
- urgent payment details;
- advance payment details;
- debt repayments;
- child support payment deductions;
- tax deductions;
- amounts directed to their Income Management account; and
- government housing rent deductions as part of the Rent Deduction Scheme.

The quickest and easiest way for people to get their Deduction Statement is to view it, save it and/or print it using the Centrelink 'Request a Document' service. They can access this service by logging into myGov and selecting their Centrelink online account.

If they do not already have an online account:

- non-Government organisations can help them register for one and link it to a myGov account at humanservices.gov.au/register; or
- if they are registered for Centrelink phone self-service, they can request a Deduction Statement using the phone self-service line by phoning 136 240.

If the client is unable to access their online account, Centrelink's local service centre staff will be able to assist by helping clients get online.

Centrelink clients can register for phone self-service:

- online, when they register for a Centrelink online account;
- by using the phone self-service line 136 240 to self-register;
- by calling Centrelink on its regular '13' number; or
- in person at a Centrelink Customer Service Centre.

Centrelink clients are encouraged to check their Deduction Statement regularly to track their deductions and make sure their financial arrangements are correct. Visit humanservices.gov.au/deductionstatements for more information.

Centrepay is the easy way for individuals to pay their bills and ongoing expenses. For more information on Centrepay, visit humanservices.gov.au/centrepay

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