PP 243096/00011

OFFICIAL PUBLICATION
OF THE FINANCIAL PLANNING
ASSOCIATION OF AUSTRALIA

Financial Planning

September 2016

$15.00

Engage, empower, enable

Jane Caro and the importance of financial independence

THIS ISSUE

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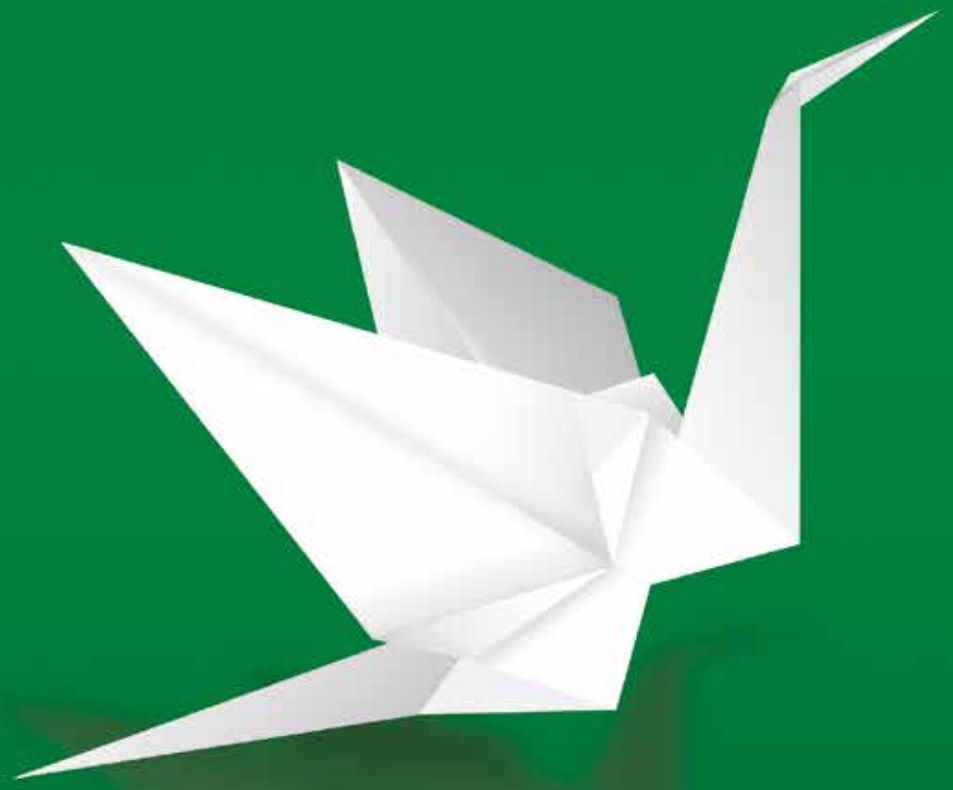

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Financial Planning Magazine is the official publication of the Financial Planning Association of Australia Limited (ABN 62 054 174 453)

• www.fpa.com.au • fpa@fpa.com.au • Level 4, 75 Castlereagh Street, Sydney NSW 2000 • Phone 02 9220 4500 • Fax 02 9220 4580

General Manager: Zeina Khodr
T: 02 9947 2413
E: zeina.khodr@colloquial.com

Level 7, 235 Pyrmont Street
Pyrmont NSW 2009
T: +61 2 9947 2222
www.colloquial.com

Managing Editor: Jayson Forrest
M: +61 416 039 467
E: jaysonjforrest@gmail.com

Advertising: Suma Donnelly
M: +61 404 118 729
E: suma.donnelly@colloquial.com

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www.colloquial.com

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Average Net Distribution
Period ending Sep '15
11,265

Photography/Images:
Adobe Stock

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Innovation: an ingredient for success

When faced with new challenges and opportunities, often innovative thinking and a fresh perspective can mean the difference between good and great.

Innovation is a mindset that we are adopting more and more at the FPA. When you stick to the status quo, things can become less engaging and relevant. I believe that when we innovate and think creatively, anything becomes possible.

Brain power

One of the areas perhaps we all underestimate in the pursuit of success is our own brain power. We often spend much time and energy building our capacity to grow and succeed in business – but do we work on what could be the most essential ingredient?

The ability to adapt, think dynamically and solve problems are all essential to running a successful and sustainable business. I'm therefore thrilled that Dr Helena Popovic will join us for a 'Boost your brain, boost your business' workshop at this year's FPA Professionals Congress in Perth.

This session will arm you with practical strategies to improve the functioning of your brain – from how sharp you think, how well you concentrate, to your capacity to learn and solve problems. This is a workshop not to be missed. For more on Helena's philosophy, you can read her interview on page 19.

Consumer awareness

I've spoken a lot already about my personal passion for raising consumer awareness about financial planning. Making good inroads in this area requires innovative thinking.

For our 16th consecutive Financial Planning Week, we decided to try something new. We wanted to change an often dull conversation for many people, into an inspiring one. We wanted to connect with a wider demographic of Australians, and were delighted to enlist the help of Jane Caro as official ambassador to help us do this.

Working with Jane was truly eye opening. Her views on financial independence for all are inspiring. Her straight-talking and authenticity is a trait that is appealing to people of all ages, and also a trait that aligned with our campaign.

For more about Jane's views, and her reasons for joining forces with us on the campaign, read her interview on page 16.

Technology

When the topic of innovation arises, the area of 'fintech' naturally springs to mind. I personally ponder regularly on whether the emergence of automated product selection tools may or may not shape the future of our profession.

Whatever the answer, the prospect offered by technology is an exciting one. Helping Australians engage with their finances and helping people improve their financial position can only be a good thing for our country.

Whilst the FPA is very much behind innovation, we are also mindful that the solutions available to consumers must be transparent, fair and operate in the interests of the client. For this reason, we actively advocate that the fintech space must be regulated as stringently as financial advice in order to provide sufficient consumer protection.

Recently, we held a roundtable on this very topic, attended by the FPA Head of Policy and Government Relations, Ben Marshan, and several other stakeholders from different sides of the fence. To read all about the roundtable discussion, head to page 22.

Enjoy the edition.

Dante De Gori CFP®
Chief Executive Officer

Follow Dante on Twitter @ddegori10

Helping Australians engage with their finances and helping people improve their financial position can only be a good thing for our country.

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Olympic medalist joins speaker line-up

Olympic champion cyclist and flag bearer at the opening ceremony in Rio, Anna Meares OAM is the latest keynote speaker to be confirmed for the FPA Professionals Congress in Perth from 23-25 November.

Meares is one of the most successful female cyclists in Australian history. Having sustained major injuries at the 2008 World Cup, Meares refused to give up, displaying sheer dedication and perseverance to be named four-time Olympian and two-time Olympic champion with six medals.

In making the announcement, FPA chief executive officer, Dante De Gori CFP® said he was delighted that Anna Meares will speak at this year's Congress.

"Anna's story is nothing short of a triumph, and an example of the power of passion, determination and resilience," he said.

"We can all learn a lot from Anna's inspirational story. Whether training to achieve our best in the Olympics, or aiming to achieve the best financial outcomes for all Australians, this is a reminder that if we set goals for the future and work hard to achieve them, we will be future ready."

Olympic champion, Anna Meares

Financial planners and their colleagues can hear Meares speak about her Olympic journey at the FPA Professionals Congress.

Before the Congress officially kicks off on Wednesday afternoon, there will be an FPA Professional Practice workshop from 11:30am-2:30pm. This complimentary workshop, which will focus on sharing best practice ideas and strategies, is open to practitioners working in an FPA Professional Practice. There will also be a special workshop for paraplanners from 12:30pm-2:30pm.

Networking drinks will follow the opening keynote session on Wednesday at 5pm. Other social events at Congress will include the highly anticipated Future2 Gala Dinner on Thursday evening and a 'Women in Financial Planning Breakfast' on Friday 25 November.

The Congress will offer practitioners up to 15 CPD hours, with workshops covering best practice concepts, technical solutions, leadership and personal growth.

The Congress ticket provides delegates access to:

- Networking drinks;
- All keynote sessions;
- All workshops (delegates will have an opportunity to pre-select their workshops);
- Access to the exhibition hall;
- The FPA Congress app; and
- Lunch and light refreshments.

There is an additional cost for the Women in Financial Planning Breakfast and the Future2 Gala Dinner.

For more information on this year's FPA Professionals Congress or to register, go to fpacongress.com.au

Ruling sets benchmark for trustee penalty

An SMSF trustee of the Felix Super Fund has been fined $40,000 for 30 separate breaches of the SIS Act and ordered to pay the ATO's legal costs of $14,000, setting a new benchmark for trustee fines.

According to the case of *Deputy Commissioner of Taxation v Rodriguez [2016] FCA 860*, over a number of years, the Federal Court of Australia heard that the trustee borrowed from his SMSF – sometimes repaying the borrowed amounts and then reborrowing them again. By doing so, the trustee effectively made the SMSF his personal ATM. The trustee attempted to disguise some of the borrowings.

In response to an auditor contravention report, the SMSF was selected for an ATO audit and the extent of the borrowings became apparent. The Court held there were contraventions of s62 (sole purpose), s65 (lending) and in-house asset provisions.

Relevant factors taken into account by the Court were the repetition and consistency of the contraventions, the attempt to disguise some of the borrowings, and the trustee's awareness that the borrowings were in breach of the SIS Act. However, balancing these factors were the trustee's co-operation with the ATO and the fact that he had personal issues.

Michael Hallinan

According to Michael Hallinan – Special Counsel at Townsends Business & Corporate Lawyers, the recent Court ruling in the case of *Rodriguez [2016] FCA 860* does set a new benchmark for trustee fines. However, as the case only involved Rodriguez, the involvement (if any) of the other trustee was not considered.

ATO announces crack down on Retirement Planning Schemes

The Australian Taxation Office (ATO) has launched 'Super Scheme Smart', an initiative to help planners and their pre-retiree clients identify risky or illegal Retirement Planning Schemes.

According to ATO Deputy Commissioner Michael Cranston, the ATO is focusing on 'Retirement Planning Schemes' that are being marketed by promoters. He says these schemes often target Australians approaching and actively planning for their retirement, trustees of SMSFs, self-funded retirees and advisers who specialise in providing SMSF advice.

"Retirement Planning Schemes are designed solely for the purpose of helping people avoid paying tax on their business and personal income. Initially, they may appear to be a good choice but they could end up proving costly for people who are lured into them," Cranston says.

Some examples of Retirement Planning Schemes drawing the attention of the ATO include:

- Dividend stripping – Where the shareholders in a private company transfer ownership of their shares to a related SMSF, so that the company can pay franked dividends to the SMSF. The purpose being to strip profits from the company in a tax-free form.
- Non-arm's length limited recourse borrowing arrangements (LRBA) – When an SMSF trustee undertakes LRBAs established or maintained on terms that are not consistent with an arm's length dealing.
- Personal services income – Where an individual (with an SMSF often in pension phase) diverts income earned from personal services to the SMSF where it is concessionally taxed or treated as exempt from tax.

Cranston says these schemes all have some common features which may help planners identify them. They include:

- They are artificially contrived with complex structures usually connecting with the taxpayer's existing or newly created SMSF.
- They are designed to give the taxpayer minimal or zero tax, or even a tax refund.
- They aim to give a present day tax benefit by adopting the arrangement. They sound 'too good to be true', and as such, they will most likely be illegal.

"Retirement Planning Schemes can have serious implications for retirees," Cranston says. "Through Super Scheme Smart, we are educating both individuals and intermediaries about the risks. We will also be enforcing civil penalties for both taxpayers and promoters."

As part the awareness campaign, the ATO has developed a range of resources pack including ase studies, Q&A, case studies and PowerPoint presentation.

For more information, go to www.ato.gov.au/SuperSchemeSmart

Calling all second semester students

The annual AMP University Challenge is now open to full-time and part-time second semester university students currently studying at an Australian university or an equivalent tertiary institution, except for those who are already working as a financial planner.

The AMP University Challenge is a unique opportunity for students to combine their technical knowledge with their communication skills in a real-world scenario.

The purpose of the Challenge is to showcase to students how rewarding the financial planning profession can be, and to enable them to experience first-hand what it takes to be successful as a planner.

While the competition is offered over two semesters, it is now closed for first semester students. Second semester students have until 26 September to submit their discussion papers.

For more information or to register, go to www.amp.com.au/unichallenge/home

Finalists will be notified on 14 October, with the finals day scheduled for 28 October. The AMP University Challenge is proudly supported by the FPA.

The FPA congratulates the following members

who have been admitted as CERTIFIED FINANCIAL PLANNER® practitioners.

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Shadforth Financial Group

UPCOMING CHAPTER EVENTS

Social media goes to heart

Following the success of the FPA Women in Financial Planning lunch held in May, the **Western Australia** Chapter held a social media workshop on 20 July, titled: 'How travelling the digital world can lead to a journey to the heart.' The workshop was presented by Tenille Bentley.

During the event, Bentley looked at various digital strategies, as well as practical applications to implement.

The art of self-promotion

The **Melbourne Chapter** hosted a Women in Financial Planning lunch on 21 July, where guests heard from Dr Vesna Grubacevic.

During the event, Dr Grubacevic presented a highly interactive presentation on 'The art of self-promotion'. The presentation looked at techniques to boost confidence, how to attract more professional opportunities, how to assert yourself with tact, and how to stop settling for less than what you really want.

Guests enjoyed Dr Grubacevic's presentation.

Guests were treated to a two course lunch, and provided with a copy of Dr Grubacevic's best-selling book, *Stop Sabotaging Your Confidence.*

Upcoming Future2 events

Join your professional colleagues at an upcoming Future2 event in support of the Future2 Foundation – the charitable foundation of the FPA. By doing so, you'll help give a second chance and a brighter future to disadvantaged young Australians.

- **Sydney Chapter** Future2 Golf Day at Castle Hill Golf Club on Tuesday 6 September.
- **Melbourne Chapter** AFL Grand Final Lunch at Etihad Stadium on Monday 26 September.
- **South Australia Chapter** Future2 Golf Day at Kooyonga Golf Club on Monday 24 October
- **Western Australia Chapter** Future2 Melbourne Cup Lunch at Crown Perth, Astral Ballroom, on Tuesday 1 November.

Register today at fpa.com.au/events

We look forward to seeing our members at the next local Chapter event. For upcoming events in your local Chapter, go to fpa.com.au/events

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Success equals happiness

Youth Opportunities was one of eight 2015 Make the Difference! Grant recipients, receiving $30,000 spread over the next three years for its Personal Leadership Program. *Financial Planning* spoke to CEO Peter Carey, about what winning the grant means for students living in one of Australia's most disadvantaged regions and unemployment hotspots.

Grant recipient: Youth Opportunities
Grant amount: $30,000 over three years
Endorsed by: Eddie Bell AFP®, Perks Wealth Management
FPA Chapter: South Australia

FP: How are you utilising the $30,000 Future2 grant, which is spread over three years, for the Youth Opportunities Personal Leadership Program?

PC: Each year's contribution will go directly towards putting 54 young 15-17 year-olds through our 10-week program.

FP: How is the grant making a difference to the lives of disadvantaged youth in South Australia?

PC: The grant is helping young Australians living with disadvantage by empowering them to take personal responsibility for a better future for themselves. The Youth Opportunities Personal Leadership Program does this by equipping participants with the tools to enable them to lead a successful life. We believe that success equals happiness.

FP: How important are donations, like the one from Future2, to Youth Opportunities and the Personal Leadership Program?

PC: We need to raise $1.4 million a year from our fundraising area to run our programs and without the support from organisations like the Future2 Foundation, we simply couldn't survive or provide the programs we do.

FP: What other programs would you like to roll out?

PC: We are in the process of developing online programs for teachers and an online program for Year 10 students.

Presenting the cheque: Eddie Bell (supporting FPA member), Denise Rowe (Youth Opportunities) and Matthew Rowe (Future2 Chair).

FP: How can financial planners continue to support your community program?

PC: We have a number of events that we run each year and it would be wonderful if the financial planning community could support these events. Information is available on our website at – www.youthopportunities.com.au

THE SUPPORTER

Eddie Bell AFP® values the work done by Youth Opportunities, so much so that he volunteers his time to help out the South Australia based not-for-profit charity. He says the Future2 Make the Difference! Grant is incredibly important for the organisation, which essentially runs on the smell of an oily rag.

"Grants, like the one from Future2, are critical for the long-term planning of Youth Opportunities," he says. "By being able to 'lock away' some amount of future funding, it provides some degree of flexibility to the types of programs it can offer and the number of individuals who can participate in them."

Importantly, he sees the Future2 grant directly benefiting his local community.

"The grant directly helps more young people acquire the skills, habits, knowledge and self-belief to help them navigate through potentially difficult areas of their lives. This provides more than a direct benefit to the individual, but a benefit that reaches out to the wider community," Eddie says.

"These graduates have a positive influence on their school communities, their families and the broader society, and in particular, regional areas where more often than not, the opportunities for disadvantaged young Australians are more limited than in the city areas.

The Youth Opportunities Personal Leadership Program

The Youth Opportunities Personal Leadership Program has been rolled out to 54 Year 10 students at Craigmore High School in northern Adelaide, one of Australia's most disadvantaged regions and an unemployment hotspot.

Over 10 weeks and 60 hours, the students receive group and one-on-one coaching. Usual behaviours are challenged in real-life situations. Students evaluate their own progress towards building self-confidence, motivation and communication skills. The proven outcomes are: better attitudes to school, improved relationships with family and teachers, and higher school attendance and performance.

Youth Opportunities provides this unique personal leadership training to around 600 disadvantaged young people each year, aiming to build the confidence and skills they need to take responsibility for their own futures. The training model prevents the downward spiral that can occur when young people make poor life choices in their mid-teens.

A new world order?

Q: What is your view on automated product selection tools? Are they a threat or opportunity to the profession and to consumers who use them?

SCOTT BROUWER CFP®

Financial Planner

Automated advice is as much a threat to professional financial planners as 'Dr Google' is to my local GP.

If digital platforms help to develop awareness, provide information and assist engagement amongst consumers, they should be viewed as a positive tool for the betterment of financial outcomes.

As a financial planner, I am looking forward to embracing the future of digital services to assist the profession in the servicing of clients who may not yet meet our 'ideal client' criteria.

For example, the children of existing clients who at this stage are not seeking, nor willing to pay for, full service financial planning, but nevertheless require some services which may be assisted via a partially automated solution introduced by our firm.

The client/planner relationship journey could be enhanced by a digital solution and then when the client reaches the point of needing more complex advice, the relationship already exists.

Like many areas of economy, digital solutions will provide the capacity for scale at a price that is consumer-friendly and yet profitable for those businesses that adapt.

While technical knowledge and skill is a given, professional financial planners possess an enormous amount of emotional intelligence and experience which is possibly valued above all else by clients. Automated advice lacks the ability to ask the right question, at the right time, to help people reach the best outcome for them as an individual because the 'robo' relies on a pre-set criteria of inputs.

The general lack of financial literacy will, for the time being, mean the consumer may not be able to input the correct data nor be able to interpret the outcome sufficiently well to implement a solution. However, to think digital advice is not going to proliferate the financial services landscape moving forwards, is akin to thinking email is a passing fad!

While artificial intelligence is being developed at an ever increasing pace and 'robo advice' may make the most complex economic and investment calculations and probabilities a mere click away from solving, nonetheless, human emotions and biases make the financial planner still a vitally necessary link in the value chain.

BRIGITTE JULIEN CFP®

Principal, Paraplanning Direct
Licensee: Paraplanning Direct

'Robo advice' may provide a start for those individuals who cannot afford a personalised service. For a modest fee, they can tap into an investment solution, which may be better than doing nothing, where they run the risk of their low account balance being further eroded by the impost of fees.

However, in my opinion, 'robo advice' falls short in that it does not address the 'advice' component but only provides a product solution.

Yes, you may have a solution for the investment of your superannuation monies but what about the contribution strategies? 'Robo advice' could be extended to provide this service and would then become more meaningful. However, 'robo advice' cannot deal with multiple and often conflicting objectives and consequently, cannot be a substitute for financial planning advice.

One of the key reasons to engage with a financial planner is to have peace of mind that experts are looking after your financial affairs. This 'holding your hand' feeling cannot be replicated through an automated system.

While as a starting point, 'robo advice' may be adequate, over time as the individual's assets base builds up and gains complexity, they will outgrow 'robo advice'. Far from being a threat, 'robo advice' then has the potential of bringing individuals who are already informed to seek financial planning advice.

This may translate to more lucrative business for planners, as the clients are likely to be in a better position to pay the financial planning fees, given their stronger asset base. The clients' expectations are likely to be higher and may require planners to invest more in their own education and offer holistic advice, rather than address single issues.

'Robo advice' as a tool for planners in their portfolio management may also benefit clients, if it results in lower fees.

Continues on page 12

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JOSEPH HOE CFP®

SMSF Specialist Adviser, Wealthwise
Licensee: Financial Wisdom

Automated advice can be a double edged sword to both our profession and to consumers, subject to how we use it.

The emergence and the use of automated advice provides an opportunity for consumers, especially highly self-directed people. However, I think most will still seek personal advice, either ongoing or on a needs basis.

'Robo advice' can enable the profession to minimise its costs and still support a quality advice model. Moreover, it can deliver significant opportunities in improving efficiency and automation of professional systems. It also allows advisers to chat with clients who you normally wouldn't be able to talk to because they can't afford to pay for the full advice model.

While 'robo advice' can provide mass-market access to streamlined advice, there will still be plenty of room for bespoke advice for more sophisticated investors.

I see some of the opportunities of 'robo advice' for consumers being:

1. No human error: It takes the human emotion and irrationality out of the investing equation.

2. Tax efficiency: The advice process may have tax efficiency automatically programmed in.

3. Prompt decision-making: 'Robo advice' may provide timely reminders to make decisions.

However, the threats include:

1. Less options: Many won't offer the variety of advice services that are offered by a financial planner, such as estate planning.

2. Lack of in-depth insight: It may not be able to anticipate potential risks on the horizon, such as a slump in housing price sales.

3. No personal touch: 'Robo advice' lacks a human consideration of personal circumstances and life changes. It will not be able to develop the same personal relationship of trust between planner and client.

However, by combining the synergies of the human touch provided by an experienced planner with the logic, methodology and accessibility offered by a 'robo adviser' platform, this can become a powerful combination for a planner's practice model.

REBECCA FERGUSSON CFP®

Principal and Private Client Adviser,
Main Street Financial Solutions
Licensee: Fitzpatricks Private Wealth

There is a place for computer generated or 'robo advice' and I do not see it as a threat to the financial planning profession. If anything, 'robo advice' will most likely present financial advisers with additional opportunities as a greater number of Australians become aware of the value of professional advice.

A full financial planning service encompasses a holistic approach to wealth creation and asset protection, bringing together investment advice with tax, insurance and estate planning. Even if automated advice does begin to offer some elements of this advice, I do not believe it will be able to replicate what a good financial adviser does.

Analysis is not the only quality of a good financial adviser – clients also rely on human skills. A computer cannot fully appreciate the complexity and dynamics associated with people and clients, which are important parts of the decision-making process.

Despite this, I believe there is a place for 'robo advice'. With the vast resources available online in terms of financial knowledge and education, consumers are becoming more empowered to manage their own affairs. For many, automated advice will provide the opportunity for consumers to access a service that may be otherwise out of their reach.

However, for clients with more complex situations, a traditional adviser approach is most likely to result in the best outcome. Whereas automated advice relies on the system the provider has developed, including the assumptions which underpin it, and this may not result in consumers being asked the right questions.

I have no doubt human wealth managers can better understand consumers' emotions and how they are really feeling. They can provide support and a confidence boost if required, assistance with more client specific issues and, of course, someone to talk face-to-face with.

Have your say. Join the debate on the FPA Members' LinkedIn Forum.

DAVID FRENCH AFP®

Managing Director,
Capricorn Investment Partners
Licensee: Capricorn Investment Partners

Having lived and breathed economics and finance since 1989, one thing is very apparent – the industry loves the idea of 'the next big thing'.

This is especially true of markets themselves – witness the information superhighway of the dot com era, which gave way to hacking threats, firewalls and a cloud probably better described as a dank fog.

Likewise, the mining boom, where despite being in a globally competitive market with falling long-run costs, markets were all too willing to embrace the 'stronger for longer' mantra.

Now many are jumping on board the 'robo advice' bandwagon.

Like online share broking, for most industry players, it will be money wasted on something with meagre returns.

Over the years, our business has learned innumerable lessons from both markets and the people who are our clients.

Some things have become very clear. One is that while many old style advisers like to encourage investment on the basis of historical capital returns, time and again, we find these cannot be repeated – selling historical returns is not a sustainable business strategy.

Another is that many people simply like to do things for themselves.

It's often said that the 80 per cent of people who don't seek financial planning advice represent a large potential market. The fact is, most of those who will pay for it are already doing so – be it their financial planner, stockbroker or accountant. The rest are using industry funds, relying on themselves or doing nothing.

Net out those people you shouldn't do business with and those with whom you'll never do business, and you're left with a relative few willing to pay for competent tailored advice. Focus on these people and the 'robo' thing won't cause you too much stress at all.

STEVEN O'DONOGHUE CFP®

National Manager, Suncorp Advice
Licensee: Suncorp

I see 'robo advice' as an opportunity and only one part of a longer financial planning value chain. Consumers are changing the way they interact and the way they wish to purchase products and services. This has been seen across many industries and I see this being no different in financial planning.

The opportunities lie in planners using the same technology to cover the changing needs of clients.

Clients may start off getting some simple 'robo' type advice, as their needs are basic and they don't want to go through the full advice process, and as their needs increase, so will their need for a planner relationship and human interaction.

I draw a parallel to accountancy. You have various methods, from do-it-yourself online, to seeing a local accountant for a basic tax return, through to complex tax advice; the financial planning continuum is no different.

Technology is the key. How do planners use the rapid changes in software to help reach more Australians to provide them with advice? Integrating a 'robo advice' offering into your planning practice will mean you can provide a simple advice solution for those clients who wish to use a DIY solution (or have minimal planner input).

You can then market to these clients as needed and use your CRM for certain life stage triggers, where the advice moves up the continuum in complexity into a more holistic relationship. This provides another segment for your client base and provides a life stage approach to financial planning.

To read more about automated investing services, go to p22.

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

Laser 2020

FPA Strategic Priorities - 2016-2020

The FPA has embarked upon a four year strategic plan that will provide direction for the next leg of the FPA journey. Dante De Gori CFP® reveals the FPA's Laser 2020 strategy.

"After a period of considerable change for the profession, and with a new leadership team now in place at the FPA, it is the perfect opportunity to review what has been accomplished over the past few years, how we have progressed and how we can continue to evolve," says FPA chief executive officer, Dante De Gori.

"This means developing and implementing new strategic priorities over the next four years."

But you might be forgiven for thinking the 'Laser 2020' catchphrase as being some sort of futuristic ideal. Not so, says De Gori.

The 2020 timeframe was chosen by the Board because it provided an achievable target period in which to reach some key priorities and objectives. While the Laser acronym stands for the five key areas that encompass the FPA's strategic priorities: Leadership, Awareness, Standards, Engagement and Recognition.

"Each of these key areas contain specific priorities that we want to address and implement between now and the year 2020," says De Gori.

"Under Mark Rantall's leadership, the FPA achieved a lot, including most notably the launch of the FPA 10 Point Plan in 2014. Today, nine of the 10 points recommended to Government in the plan have either been implemented or will be implemented.

"So, Laser 2020 is an opportunity for us to take stock of where we've come from and to consider what's next for the FPA to progress the profession even further, hence the development of the Laser 2020 initiative."

Five elements

According to De Gori, elements of the strategy will be progressively rolled out over the next four years. He provides the following insights of the strategy that the profession can expect to see implemented.

"Under Leadership, it will continue to be important for the FPA to play a role in leading the profession. We've already done a lot in leading the profession, for example, advocating for a degree standard qualification for new financial planners," De Gori says.

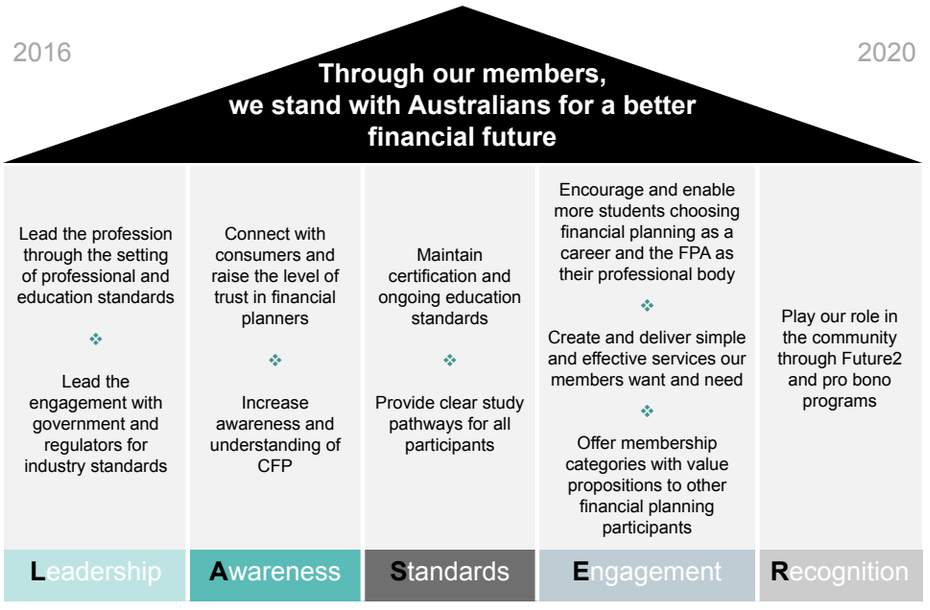
"And, of course, we led the profession with the only Code of Ethics and Professional Practice in the marketplace for financial planning practitioners, and now, as a result, others are following suit. So, it's important for the FPA to continue a leadership role in the profession."

Under Awareness, De Gori concedes that one of the key nuts the FPA needs to crack is to better connect with consumers and raise the level of trust in financial planners. He believes the FPA can play a more important role in reconnecting with consumers, in reforming the brand of financial planning, and rebuilding the trust and confidence in financial planners.

Key to this is developing digital and social media content and resources that will be directly targeted towards consumers. This will include incorporating real life stories from everyday Australians.

"I believe there is a large misconception about financial planning, and what financial planners actually do. So, there is a

FPA Strategic Priorities 2016-2020



real opportunity to rectify that and debunk these myths, while clearly demonstrating the benefits of good financial advice."

Whilst achieving this will take some time, De Gori believes a strategy that uses consumers as advocates of financial planning is one of the best ways to convert the hearts and minds of Australians.

"And under Engagement, we want to encourage and enable more students to choose financial planning as a career," he says.

"With raised education standards, it's going to become a lot harder for people to become financial planners. This means we need to optimise the potential of future students coming through the system, which includes deeper engagement with universities and education providers in respect to financial planning career paths."

The FPA already has dedicated resources in place to specifically target universities and education providers to lead engagement with students, and get financial planning on their career radar.

"We will also be developing tools and resources for members to better equip them when they are presenting to students at universities and high schools," De Gori says.

Closely linked to Engagement is Standards. Central to this will be the FPA maintaining professional certification and ongoing education standards, while also providing clear study pathways for all individuals wanting to become a financial planner.

Success

But no strategy can be truly effective unless results and success can be measured. So,

Dante De Gori CFP®

how does De Gori propose to do so with Laser 2020?

"Because we have a diverse range of strategic priorities planned for the next four years, we need to have a number of ways to measure these," De Gori says. "These measurements will range from the basic, such as the number of students taking up financial planning as a subject and progressing into financial planning related careers, to the more complex."

An example he uses is consumer activity, which he agrees is a little harder to measure.

"However, everything is measurable, which is why we are developing benchmarks that will gauge the level of consumer trust and confidence in financial planners.

"So, we will have a range of measures in place to track Laser 2020. Some of these measurements we already have in place, like tracking the number of people using the Find a Planner website to choose a planner, while other measures are currently being developed."

Involvement

But the success of Laser 2020 requires more than just the implementation of the strategic priorities by the FPA; it requires the involvement of the entire profession.

"The Laser 2020 strategy is very important for the profession, as it builds on the foundation that has already been set with the professional education standards and regulatory requirements, which directly connect to the best interests of consumers.

"Most Australians don't understand what's happening in the legislative world and the framework around financial services.

"But now that the FPA has worked on the framework that individuals must meet to become a financial planner, we now need to build on that in terms of connecting with everyday Australians about the benefits of financial planning and how financial planners can help them."

De Gori says that fundamental to this is restructuring the dialogue the profession has with consumers.

"Consumers often don't realise that most financial planners are active participants in their local community. They play an important role in community activities, whether it's at their local school, or with sporting clubs, the RSL or Rotary.

"The role of financial planners giving back to their local community is very important, not only through the Future2 Foundation but also through various pro bono programs. And that's where Recognition comes in as one of our strategic priorities," he says.

"If, as a profession, we're going to progress in the minds of consumers, we need to showcase those individuals and practices that are demonstrating their involvement in the local community and who are giving back to their local community."

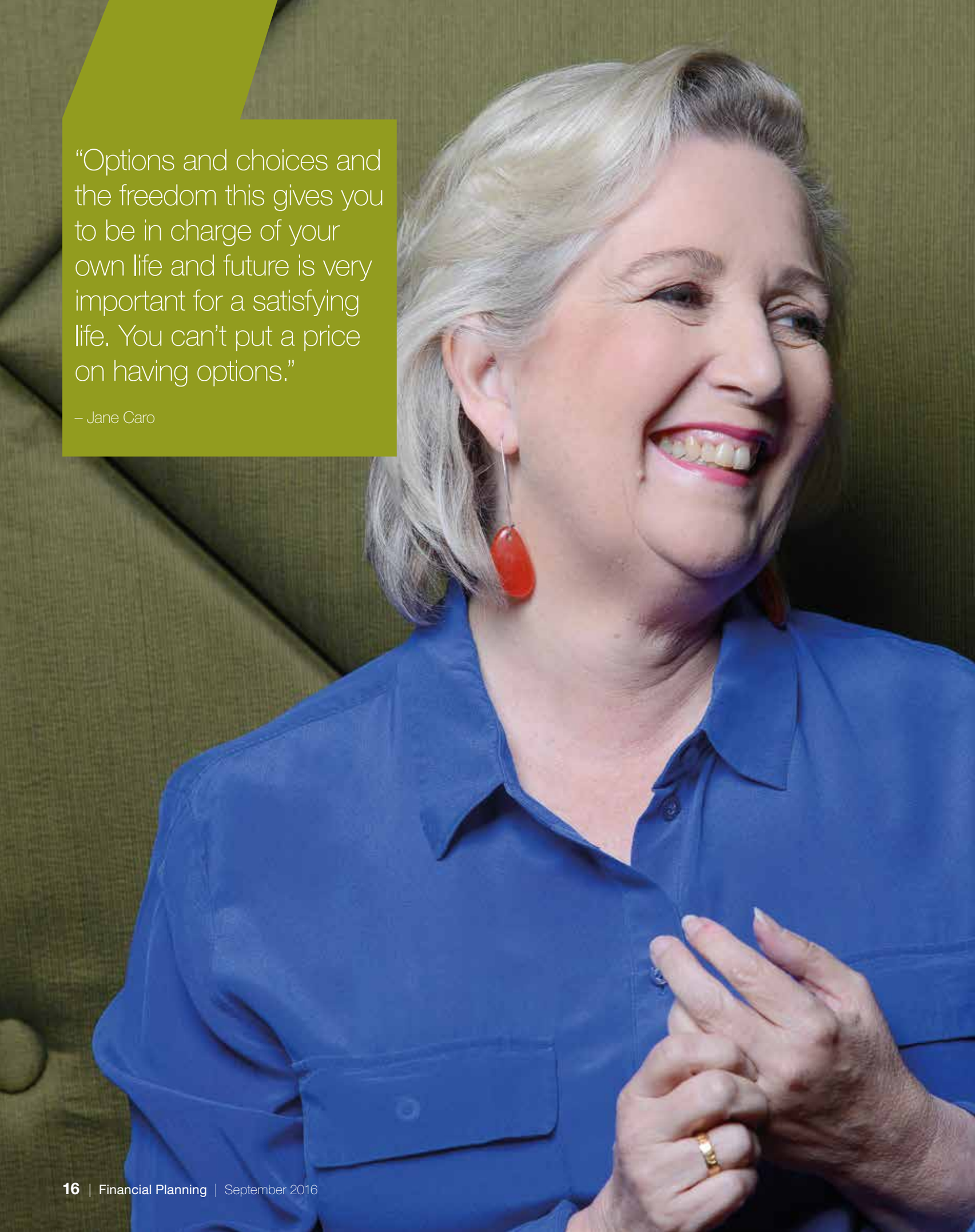
> "Laser 2020 is about recalibrating, reconnecting and re-engaging. It's a four year journey that will position the profession for the next 10 years and more."
>
> – Dante De Gori CFP®

This will include the Laser 2020 strategy progressively rolling out tools and resources to practitioner members enabling them to better engage with their local communities and connect with consumers.

But as much as Laser 2020 is about connecting with consumers, it's also about connecting with future financial planners, and winning over the next generation.

"There is no doubt that financial planning is of national importance. More Australians than ever before need financial advice, so we need to do a better job of connecting with them, while also connecting with students to ensure the profession has enough planners in the years ahead," De Gori says.

"Laser 2020 is about recalibrating, reconnecting and re-engaging. It's a four year journey that will position the profession for the next 10 years and beyond."



"Options and choices and the freedom this gives you to be in charge of your own life and future is very important for a satisfying life. You can't put a price on having options."

– Jane Caro

Engage, empower, enable

Financial Planning Week 2016

As the FPA's official ambassador of this year's Financial Planning Week, Jane Caro shares her strong opinions on the importance of financial independence. Jayson Forrest reports.

Jane Caro is no shrinking violet when it comes to empowerment. And when it comes to the financial independence of Australians, she gets down right passionate. It's a cause close to her heart.

As an author, journalist and social commentator, Jane is well-rounded in most issues affecting Australian society. But while she considers herself to have a "reasonable" handle on her financial situation, she is the first to admit that, like most people, she battles to understand the intricacies of wealth management.

This is just one reason why Jane accepted the role of official ambassador for Financial Planning Week. She says it was an easy decision to make, because it gave her the opportunity to turn the spotlight on the growing need for more Australians to take greater responsibility for their own financial futures.

Jane is an ardent champion of open and direct conversations. She believes that it's only by putting financial wellbeing under the spotlight and talking about it, that more people will be empowered to take greater responsibility for their own financial futures. "Let's motivate them to dream again – for a better lifestyle and a comfortable retirement," she says.

"We all need to be encouraged to think proactively about our own finances. It's time we have that conversation and Financial Planning Week was the ideal opportunity to begin that dialogue with the Australian public," Jane says.

It was this message of encouragement and support that Jane communicated to consumers during Financial Planning Week.

"It was an ideal opportunity to talk about the importance of taking control of your finances, planning for your future and getting good financial advice. This is the message I took to market in the hope that it would inspire Australians to think more seriously about their own finances and to see financial independence as being relevant to them."

Experiences

As an advocate of financial independence, Jane's decision to take on the role of ambassador for Financial Planning Week was made stronger by the fact that she and her family have personally benefited from the advice provided by financial planners, who she has worked closely with over the years.

"My husband and I initially engaged the services of a financial planner quite early on. His advice helped us to pay off our first mortgage quite quickly and he really set us up at a time when we were mostly on one income. So, that experience gave us a good feeling about financial planning."

And now that she's older and "slightly" wiser, Jane still continues to get regular professional advice, ensuring that she and her husband achieve the quality of lifestyle they want in the years ahead. It's this approach to seeking professional advice that has been invaluable for her, and it's this very message of financial empowerment that she was determined to spread to the wider community.

Independence

Spend some time with Jane, and it won't be long before the words "financial independence" crop up. But for Jane, financial independence doesn't necessarily mean being wealthy. Instead, it's about having the ability to have options and make your own choices.

But what does this mean?

"It's about being able to pay your bills and afford a roof over your head. It's about feeling relatively secure in knowing that you're heading in the right direction financially. If you're in that situation, it enables you to make choices," she says.

"But if you're in a situation where you're living from one pay packet to the next, where you've got a mountain of debt, where you're feeling insecure about paying the rent and bills, then you don't have any choices at all. You have no power in your workplace, you have no power to say 'no', you are living on the hope that you will stay employed and have a desperate need to please other people. That's a terribly disempowering place to be.

"Therefore, options and choices and the freedom this gives you to be in charge of your own life and future is very important for a satisfying life. You can't put a price on having options."

Continues on page 18

Continued from page 17

Jane Caro

Inequity

But she concedes that not everybody has the ability to have options and make choices.

Jane recalls a statistic she came across a few months ago that showed that the fastest growing group of homelessness in Australia were women over the age of 55. It was a cathartic moment made all the more real by the fact that this was her own age demographic.

"I was shocked," she says. "These women are suffering financial stress because they don't have enough superannuation saved and were too reliant on their husbands to provide for them. Unfortunately, the way this has panned out for far too many women has been a disaster."

As ambassador of Financial Planning Week, Jane was only too aware of the growing financial inequity of some of these demographic groups, which motivated her all the more to raise greater awareness of the importance of taking control of your financial future.

But how do these groups empower themselves to take greater responsibility for their own financial independence when they are already heading into the poverty trap?

"It's a good question," Jane says.

That's where the value of good advice comes in.

"Obviously, if you're already in poverty, you can't afford to pay a financial planner but there are not-for-profit organisations and Government funded financial counsellors and advisers available to assist people who find themselves in very difficult financial situations. I know they can help make life better for these individuals.

"In fact, any kind of advice to help people avoid becoming homeless is incredibly important," she says. "So, what I'm really saying is, don't get yourself in that situation in the first place, if you can possibly avoid it."

As part of this approach, Jane believes it's vitally important for Australians to make sure that whether they are in a spousal relationship or not, that they are well aware of what their personal financial situation is.

"They shouldn't just accept that their partner will take care of their financial wellbeing," she says. "That's nonsense, because we know, for example, that most women after divorce never recover from the financial hit they take and that's often because they don't actually know what their financial situation is."

Jane would also like to see more done to help women who take time off work to have children, raise a family, and increasingly, assume the carer's role for elderly parents.

She calls this the "motherhood penalty" and strongly believes it's one of the reasons why the face of poverty in Australia today is increasingly looking more like the face of an older woman.

"It's this generation – my generation – who fell through the cracks. When we were younger, we were told that our husbands would look after our financial futures, but we discovered later on that the world had changed. These women were not often equipped to deal with that new world. It's this generation that has been terribly let down."

It also concerns Jane that women in the past were not encouraged to think or talk about money, "as if it were almost unfeminine to do that". It's one of the reasons she was keen to be involved in Financial Planning Week because, as she says, "this idea of being unfeminine is terribly destructive".

"Financial stress affects all parts of society. Only by engaging with Australians and empowering them to take control of their own financial futures, can we begin to address financial distress within society. Professional financial advice is part of this solution," Jane says. "By working together, we can 'Dare to Dream' again, and that can only be a good thing."

ABOUT JANE CARO

Jane Caro is a respected author, novelist, journalist, broadcaster, advertising writer and social commentator.

She has published eight books, including two novels, *Just a Girl* and *Just a Queen*, about Elizabeth Tudor. Her memoir, *Plain Speaking Jane*, was released in September 2015. She is currently working on *Just Flesh & Blood*, the third and final book in the Elizabeth Tudor trilogy, which will be published in 2017.

A regular on Agony, *Q&A, The Drum, Sunrise* and *Weekend Sunrise*, she often appears in the media.

In 2013, she co-created, co-produced and presented a six part radio series for ABC *Life Matters – For Better, For Worse.* The success of the series has seen it adapted for a five part television series for ABC *Compass*. Jane will be producing another special series for Compass in 2016 called *Fathers & Daughters, Mothers & Sons.*

Jane also writes regular columns for *Sunday Life* and *Leadership Matters*.

Boost your brain, boost your business

In a compelling workshop session at this year's FPA Professionals Congress, leading brain specialist, Dr Helena Popovic, will discuss the emerging field of 'neuroplasticity' and explain how through some simple steps, anybody can boost their greatest asset – their brain.

Neuroplasticity refers to the ability of the brain to change its own structure with each different activity it performs. The term is a splicing of two words: 'neuro' – anything related to the brain or nervous system; and 'plasticity' – meaning malleable or able to be moulded.

According to Dr Popovic, it's never been more important for people to spend time working on their brain, because the brain is the control centre of our body and our lives.

"If you don't have an optimally functioning brain, everything else in your body won't be functioning properly either. The brain is the ultimate endocrine organ. It sends all the signals and messages to the rest of the body," she says.

In her presentation, Dr Popovic will cover off on the top 20 things you should be doing to keep your brain functioning at its peak everyday. By attending, you will get a deeper understanding of how the brain works, and why we need to be proactive in keeping it healthy.

"Boosting our brain power doesn't come through doing one or two quick things. It's done though a combination of things, such as what we think, what we do, what we eat, how we behave, how we exercise and how we sleep," Dr Popovic says. "There are so many different things necessary for optimal brain function.

"We also need ongoing lifelong learning, if our brain is to work optimally. Our brain hates boredom, monotony and

Continues on page 20

NEW IN 2016: PARAPLANNER WORKSHOP

This year, the Congress will be offering a special two-hour workshop designed for paraplanners. This workshop will strengthen technical knowledge and enhance personal development skills specific to paraplanners. It's also an opportunity to share and connect with peers.

The workshop will explore:

- Best practice techniques around product comparison, and disclosing costs and risks of switching under best interests duty;
- Assessing whether goals are achievable and how to set measurable markers to check over time; and
- How to take your networking and communication skills to the next level.

This workshop is taking place on Wednesday 23 November from 12:30pm-2:30pm at the FPA Professionals Congress.

Continued from page 19

sameness. Our brain does not want an easy life, it likes to be challenged. That's what really keeps us sharp, and what enables us to be creative when we need to be and to problem-solve efficiently."

According to Dr Popovic, delegates will also learn that by better utilising our brains, we not only have the answers for being more efficient but for preventing memory loss conditions, such as dementia.

"But the problem is, none of this is a quick fix. It's the result of ongoing lifestyle," Dr Popovic says. "Having an inquisitive mind and asking lots of questions is a simple way of sharpening our brains. We can go a long way to reducing our risk of developing conditions affecting the brain, like dementia."

Dr Popovic's workshop session will provide immediately implementable, practical suggestions to improve the functioning of the brain. By applying this knowledge, you can:

- Sharpen your thinking;
- Improve your concentration and memory at any age;
- Tap into brain potential you never knew you had;
- Expand your creativity;
- Increase your capacity for learning and problem-solving;
- Reduce your risk of developing depression, anxiety disorders and dementia;
- Prevent the cognitive decline mistakenly attached to ageing;
- Perform at your peak on a daily basis; and
- Achieve far more than you ever thought possible.

Congress Workshop Program

Industry experts and leading CFP® practitioners fill a program of 24 workshops across four dedicated workshop streams – Evolve, Grow, Engage and Inspire. Each session is accredited with 1 CPD hour. The following is a preview of the sessions.

Evolve	
Led by industry experts, these sessions will enhance your technical capability and critical thinking in financial planning specialty areas.	
Superannuation: How to get the money in!	This session will give you a valuable update on recent changes to super, as well as practical information to help you optimise the mix of super contributions, deal with excess amounts and understand how the new super rules interface with various concessions.
Strategies for accessing super, tax effectively	This session is geared around how your clients can best access their super as part of their retirement plan. It will help you identify the key trigger events that lead clients to access their super, and provide tips and traps of accessing super through lump sums and pension.
Tax effective estate planning	In this session you'll uncover the fundamental estate planning issues you need to know. This includes the difference between utilising family and testamentary trusts to distribute wealth, and the increasing need for estate planning with SMSFs.
Risky business: How to manage your best interests duty and claims effectively	Learn about when you should (or shouldn't) incorporate insurance inside super versus outside super. In this session you'll hear the top five lessons about best interest duty from over the last 12 months, as well as ways to manage claims effectively.
Investing in uncertain times	This session will explore key drivers that could impact the current low growth economy, and uncover the latest investment trends and how to access them.
The provision of care: It's not just about the aged	Examine the different types of care your clients may need to make decisions around including in-home care, residential care and the NDIS. This session will delve into each of these different types of care.

Grow	
These sessions are designed for the practice management professional and will improve the operational side of your financial planning practice.	
Demographic trends impacting your client relationships	Understand how demographic trends are impacting financial planning and how you can better engage with clients.
Ethical challenges: Learning through case studies	Using live polling, video and case studies, this session will sharpen your decision-making around challenging grey areas that affect your clients and your business. **Two** of these ethics sessions will appear in the workshop program, each covering different topics and case studies.
Protecting your professionalism	Hear important lessons from disputes that have gone through FOS and how you can avoid similar situations. You'll also hear from an insurer/underwriter on how professional indemnity impacted each dispute.
Working with Centrelink	Learn how to deal directly with Centrelink and ensure efficient processing on behalf of your clients. This session will also give you an understanding of how the January 2017 changes will impact concession card eligibility.
Policy and regulatory update	This session will give you all the latest details on changes in financial planning.

Earn up to **15** CPD hours

FOR MORE INFORMATION, GO TO FPACONGRESS.COM.AU

** Program subject to changes. Times and events may vary slightly.*

Engage

These sessions will cover how best to engage, grow and develop your clients, your staff and your business.

Are you future ready? Changing the way you work creates opportunity	Technology is causing a shift which will displace dominant players and give rise to new commercial heroes. Are you brave enough to change the way you work? Explore how, regardless of your technical knowledge.
Tapping into clients' dreams: Understanding and engaging with ever-changing clients	This session will outline the key attitudes of working-aged Australians towards money and their personal financial futures: gauging their hopes, concerns and dreams about the future.
Engaging clients through social media and building your brand	Using social media is now a core skill for communicating and engaging with clients. Build your brand, your network and trust by sharing content and conversations.
Influence and trust – present with clarity and creativity	The trust of your clients is essential. Using influence and clarity to present ideas creatively and keeping their attention is vital.
Reinventing performance management	Learn ways to reinvent performance management by creating positive teams and supporting them with the intelligent application of technology.
Engaging clients through communication and connection	Learn a fresh approach to client communication that concentrates on understanding those you are trying to influence, in order to create a stronger connection.

Inspire

Hone and maintain your own personal development and motivation goals in a series of sessions that will discuss and demonstrate how to be future ready, both mentally and physically.

Boost your brain – and boost your business	Learn practical ways to improve the functioning of your brain. This session will give you useful tips to sharpen your thinking, improve your memory and help you perform at your peak on a daily basis.
Vocal intelligence: Express certainty and be more engaging	Working through the seven blockages to authentic communication, you'll learn to challenge current patterns of everyday engagements.
Turn stress into success	Learn how we can use stress to our advantage and gain successful outcomes.
Perform better, smarter: Use smart nutrition to improve your professional performance	Learn how the modern workplace can incorporate elite science and research to improve professional performance by simply fuelling your body through smart nutrition.
The future of leadership – thinking ahead	The skills you and your team need for future success aren't technical, task-oriented skills, but problem-solving, innovation, collaboration and higher-order thinking skills.
Change your thinking: Have courage and believe in yourself	Your life's trajectory will be decided by having the courage to believe in yourself. Winning the battle within yourself is the difference between overcoming a challenge or being stopped by it. Mindset is the decider.

PROGRAM OVERVIEW

Time	**Wednesday 23 November**
7:30am	Registration opens
11:30am-2:30pm	Professional Practice Workshop
12:30pm-2:30pm	Paraplanner Workshop
2:30pm	Afternoon Tea
3:00pm	**CONGRESS OPEN** and **KEYNOTE SESSION 1**
5:00pm-7:00pm	Networking drinks
Time	**Thursday 24 November**
7:00am	Networking breakfast
8:30am	**Evolve** **Grow** **Engage** **Inspire**
9:40am	**Evolve** **Grow** **Engage** **Inspire**
10:40am	Morning Tea
11.20pm	**Evolve** **Grow** **Engage** **Inspire**
12:20pm	Lunch
1:30pm	**Evolve** **Grow** **Engage** **Inspire**
2:40pm	**Evolve** **Grow** **Engage** **Inspire**
3:40pm	Afternoon Tea
4:20pm	**Evolve** **Grow** **Engage** **Inspire**
6:30pm	Pre-dinner drinks
7:00pm	Future2 Gala Dinner
Time	**Friday 25 November**
7:30am	Networking Breakfast / **Women in Financial Planning Breakfast**
9:00am	**KEYNOTE SESSION 2**
10:45am	Brunch
11:45am	**KEYNOTE SESSION 3**
1:30pm-2:00pm	Farewell afternoon tea

The bionic adviser

‘Robo advice’ remains a hot topic in the industry but is the term itself a misnomer? Industry specialists provide their insights on automated investing services and the implications these have for the financial planning profession. Jayson Forrest reports.

Participants

Jason Andriessen CFP®

General Manager, Marketing and Financial Planning, StatePlus

Ian Dunbar

Chief Executive Officer, SuiteBox; Co-founder, Afiniation

John O’Connell

Chief Investment Officer, Banking and Financial Services, Macquarie Group

Julian Plummer

Managing Director, Midwinter

Claire Mackay CFP®

Principal, Quantum Financial

Russell Medcraft CFP®

Founder and Adviser,
Financial Choice

Ben Marshan CFP®

Head of Policy and
Government Relations, FPA

Q: Is robo advice the right term to use for an automated (or algorithmic) investing service?

Russell Medcraft (RM): From a financial planner's perspective, robo advice is really just automated investing. It's an algorithmic term. I think the term robo advice is a misnomer.

We should change the term from robo advice to purely just digital delivery. It's not advice, it's just a way of delivering a product.

If you're in advice, you stay in advice and you offer your services for a margin. That's how you make your profit.

Julian Plummer (JP): We see digital advice as the paperless self-service of advice, and it's generally limited to one advice topic, which is ETFs. So, what happens is, a client comes along to a robo advice platform, fills out a risk profile and then they get invested into the corresponding ETF portfolio.

The term I prefer to use is digital advice, which is a far more comprehensive way of looking at things, and that includes paperless client engagement, paperless self-service of advice, paperless escalation of advice, the delivery of advice, the lodgement of advice and the execution of advice.

John O'Connell (JO): I think digital wealth management is a better term. Robo advice itself is a derogatory term that the funds management industry put on these digital players to create the impression of dystopia of algorithms not working correctly. The truth is, it's simply digital wealth advice.

"It's how the digital advice component works within the advice relationship. It's not replacing the financial planner but complementing the planner. It's about aiding in engagement, aiding in decisions and reducing costs of service."

– Jason Andriessen CFP®

In terms of the industry moving this way, it already is. Four of the world's biggest fund managers – BlackRock, Vanguard, Fidelity and BNY Mellon – have come out with digital wealth advice offerings. So, the biggest players in the market believe there is consumer demand for this type of advice.

Jason Andriessen (JA): The term robo advice is quite interesting. There's actually no robot and I'd argue there's no advice. So, robo advice is a misnomer. I prefer the term digital advice. I see it as a way to enable efficiency and better client engagement for better financial decisions.

There definitely is consumer demand for people who want to self-serve. But the greatest demand from consumers is for adviser-assisted digital advice, where financial planners deliver advice with a lower cost of service. Actually, there is increased engagement because it's such a transparent tool and it's a safe place for clients to learn.

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TOP 7 THREATS

Seven key threats of automated investing services.

THREATS

1. The institutionalisation of automated advice.
2. Large client distribution base required to get the critical mass needed to make digital advice cost-effective.
3. Limited or no human interaction. Who do you call when a GFC happens or during market downturns, when consumers are looking for reassurance and advice from a professional planner?
4. The risks associated with algorithms going wrong.
5. Mis-selling – the marketing by some robo advice providers claiming consumers don't need a financial planner and instead, to just rely on their product.
6. The financial planner who thinks their value proposition is selecting products.
7. Planners who don't engage in the fintech space.

As we know, financial planning is a complex purchase cycle and a risky decision for many people. So, digital advice is a way for consumers to ease in to making improved decisions and for financial planners to deliver better service.

Ben Marshan (BM): What currently is being thrown around as robo advice is probably more a form of automated product selection. They are automatic product selection tools where you answer a series of questions and get a portfolio out the other end. Some of them are claiming not to be providing advice but possibly are. Others don't seem to be sure what they are doing.

What the FPA feels is that any engagement or excitement consumers have around better understanding and taking control of their financial position, is a positive. These user interfaces that enable people to better engage with their finances is an absolute positive.

We know that 80 per cent of consumers have never received any financial advice at all and 90 per cent don't have regular interaction with a financial planner. So, anything that helps raise the financial literacy of Australians is a positive.

These digital offerings have a place but calling them advice is a problem, and having people think they are getting advice when they are clearly not, is likely to lead to confusion and poor outcomes for consumers.

Ian Dunbar (ID): Digital advice or technology enabled or assisted advice is exactly the right type of description for this. And it's also easily the most exciting area of activity and transformation going on in the advice industry.

We're going though the next phase, where technology co-ordination and algorithms are actually driving change in all of the components of the advice process. That means the automated capture of information and the gathering of an individual's financial circumstances using technology, rather than filling out pieces of paper.

Clearly, there's automation in goal setting and risk profiling, there's automation in the identification of insurance options, there's automation in investment strategies, and all the way down to the way in which it's reported. We are seeing activity in all of that. Unfortunately, some components get mashed together and are incorrectly called robo advice, when it should be called automated investing or robo investing.

So, for those organisations that can grab some or all of this digital transformation and apply it to their businesses, they will benefit by getting much better scale, better client engagement, better consistency, much better transparency, lower risk of error and lower cost.

Q: What are the types of automated technologies/ services available for planning businesses?

JP: Consistency is a huge selling factor and compelling legal aspect of digital advice. There are certainly no rogue advisers when it comes to digital advice and that's a benefit for the industry.

I think there are two types of digital advice that advisers can use. One is the silo approach where planners select a system that sits alongside their advice process. And the other is the one that comes out of the financial planning software, which is part of a planner's financial planning or advice process.

So, an adviser can engage with their clients using a digital or robo advice tool, where they can illustrate projections or product implementation, and then push the clients up the escalation process by using collaborative advice methodologies or full face-to-face advice interviews.

Ideally, any automated service should sit along the advice process. We don't want to change the advice process just to fit in a robo advice tool. You want it to sit along your fully compliant advice process to make sure you are fulfilling your clients' best interests requirements and that you're meeting all your fiduciary duties.

Q: Why would a planning business offer an automated digital advice service?

Claire Mackay (CM): With demographics changing, everyone now has access to mobile digital technology, be it their smartphone or iPad. There is also a lot more concerns around the quality of the advice people are receiving. Individuals are looking for more transparency and a hands-on experience.

So, from a financial planner's perspective, the next wave of clients might not come through, because they are going instead to alternative sources of information and applications that enable

them to better engage with their own finances.

I'm concerned that if a financial planning business is saying 'I want to keep my premium service', where traditionally there have been good margins, 'but I'm going to offer a low cost entry point', it's going to be difficult to differentiate and provide the two services.

Russell mentioned that there isn't a great deal of profit involved in these digital services, so ultimately, they have to be taken over by the big institutions. And from a financial planner's perspective, where the majority of practices are embedded into one of the major institutions, they would be looking at their parent institution and asking what are they going to do to support me?

If my business was on their platform, which they have already spent a lot of money on, and it's a closed network, my clients may say they don't necessarily want to be part of that world. In which case, for a lot of financial planners, it's actually going to become more difficult doing business.

The automation and streamlining of processes is a given. It's a natural progression of technological development.

The squeeze on margins is making advice more affordable to more Australians. It's also prompting financial planners to question their value proposition. So, if your proposition is a platform, with a standard one of five portfolios, and you see clients once a year, and you provide them with a couple of advice changes throughout the year, is that really a premium service?

So, knowing where you are on the value chain is important in terms of what you are providing to consumers. Just because you build something doesn't mean they will come. It's only if consumers demand it. That's why digital advice is being built and that's why the institutions are going there.

As a planner, where do you sit? What is the service you are offering? And if your service offering can be easily replicated at a low cost by some smart IT people and then bought by an institution, then I would be afraid. But from a consumer's perspective, I think it's awesome.

RM: About five or six years ago, we implemented our model portfolios of ETFs and have been running them since then. We also have a self-managed superannuation business, as well as a financial planning business.

We regularly survey 600,000 consumers on our database. However, we know that 80 per cent of the people we survey don't want a financial planner and they don't see any purpose for using a financial planner. Their response is, 'I expect my superannuation fund to deliver, and I don't necessarily want to move from that fund'. They are quite happy to stay where they are, which is an interesting thing if you're playing in the digital advice space, because that's why the institutions are participating. So, as a planner, I make my money from managing these model portfolios of ETFs and for me, that's where the margins are.

But from our survey findings, I know that the majority of Australians won't take up automated investing or robo advice. They don't know what it is, they don't care about it. They suffer from a large inertia. They just expect their superannuation fund is going to deliver. So, it's up to that superannuation fund to actually engage these algorithmic tools. It's the institutions that are going to compete with each other, just like they are doing in the US.

Paul Resnik has already said that you are going to waste your money if you're playing in this digital advice space, because you need two things: firstly, you need a lot of money, and secondly, you need a lot of clients. If you've got a lot of clients, you can play in this space but if you don't have a lot of clients, which financial planning practices don't have, it's very difficult and costly to compete.

We're kidding ourselves in the Australian marketplace if we expect robo advice is going to deliver what we expect it to, which is a lot of money and a lot of profit. Instead, it's just going to be played out between the large institutions because they have the scale and can afford to 'waste' the money on it.

CM: Again, it comes back to the value chain. If you are providing the same service that you have been providing for the past 15 years, then you're actually in trouble. And for the many financial planners who are tied to the big institutions, which are investing the money in these technological systems that will inevitably replace them, that's actually quite concerning.

From a financial planning perspective, the rise of the true independents is brilliant, because since the credit crunch of 2007-2008, consumers are looking for advice that is not tainted and unbiased. That's why trusting a robot is not necessarily good, because who controls the 'black box' underpinning the advice? It's the institutions, so there's still going to be elements of bias in that.

> "If your value proposition is talking to the client about wealth distribution, goals-based investing, SMSFs and so forth, then that concierge service has a huge value proposition for clients."
>
> – John O'Connell

ID: I agree with Claire. In terms of robo advice or automated investment services, the thing that we have to be very mindful of in Australia is the experience of the US, where this automated investing or automated vertical integrated services, are run by the likes of BlackRock, Vanguard and Schwab. These big institutions are still controlling the underlying engine.

JO: I think the marketplace will sort that out. The marketplace will either decide whether it's comfortable with vertical integration or opt for a fund-of-funds robo offering.

RM: Whether or not consumers will still need a planner or accountant in the future, they'll

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TOP 7 OPPORTUNITIES

Seven key opportunities of automated investing services.

OPPORTUNITIES

1. Technology and fintech solutions will provide cost savings, workplace flexibility, business efficiencies and improved business profitability.

2. Planners can focus on where they are adding value for their clients in the advice process.

3. Driving down the cost of advice.

4. The transformation of human assisted advice, will see the rise of a hybrid model that incorporates planner interaction with automation, providing consumers with an improved, transparent and more cost-effective outcome.

5. Better engagement with consumers using technology platforms will better enable consumers to interact with their financial affairs. This will be a good thing in growing the financial literacy of Australians.

6. A $1.9 trillion advice opportunity, based on 75 per cent of Australians who don't currently have an advice relationship. Technology can help bridge this gap.

7. Planners positioning themselves as a hub for their clients and then using tools around that to provide more efficient services.

still need an institution. They'll go to their bank or institution for everything. It will be provided free. Planners will then purely look after their clients, who are prepared to pay for our services and who recognise the difference in what we provide. And we'll charge a margin for it, because we're not going to be able to compete against the institutions in the digital advice space.

CM: I think there is an element of complacency to assume that consumers will just go with the same institutions and brands that they've known forever. I think we cannot underestimate the damage that the financial services industry has caused in consumer trust.

The Australian financial services industry is looked upon as an industry that has been incredibly resistant to change, that is very profitable and an industry that has in many ways taken consumers for granted. So, to assume that 'If you build it, they will come' and that if you provide something, consumers will just accept it, I think negates the change technology is bringing to the minds of consumers.

As an industry, we need to recognise that control actually rests with the consumer, and not with the institution, the product provider or the blackbox creator. Uber and Airbnb have demonstrated that with real time feedback and real time sharing of information, consumers can actually improve the quality of service they are receiving.

I think financial services institutions, to date, have not been keeping up with consumer demands. Consumers are now saying, 'We deserve better and we demand more'.

So, it means really pinpointing the value you are adding to the consumer experience. And I think the value of advice, which is the FPA's space, is really touching into that because every Australian is an investor through their superannuation, every Australian wants to give their family a better life than they have had, and every Australian wants to have a dignified retirement.

We have to focus on the consumer as being the centre point of all of this. And if the consumer perceives value, they will pay for it. And if they think they are getting a dud product for a cheap price, they will tell you.

Therefore, the assumption that most Australians will stay with the institution they're with, simply won't be the case going forward.

JP: I think the elephant in the room are the superannuation funds. You've got these intra-fund advice rules which give the superannuation funds an almighty head start. So, how are planners going to compete against that, particularly when you've got the superannuation fund paying for the member's advice? You've got contribution levels, insurances and investment option switches, which sounds to me like the perfect battleground for digital advice.

Q: Can automated advice complement a traditional advice model?

JA: I absolutely agree that digital advice provides the opportunity to better engage members and help them make better decisions with their money. But how this fits into a traditional advice model is the question.

At StatePlus, we have 160 planners providing a face-to-face advice capability. We've just invested more than $60 million on a multi-channel client experience, including digital advice. And the opportunity there is that it enables our planners to deliver on their value proposition better, because their value proposition is helping people understand what they want to achieve, what their conflicting priorities are, and how they are tracking. It's not about fees or asset allocation. Instead, it's about, 'Am I spending down my capital in a responsible manner' and 'How am I balancing today's decision-making trade-off with being responsible for the future?'.

And that's what this allows us to do. It enables planners to move away from product delegation arising from asset allocation discussions, to actually engaging with clients and talking about the things that matter to them.

ID: I think it's important that we judge any particular service by asking: If somebody is utilising robo advice or a piece of technology, are they going to be better off using it than not using it? If you look at Australia, there's a huge opportunity for superannuation funds to utilise algorithmic goals-based investing tools, which they already are.

But I also have a real problem with tools, for example, that don't even ask simple questions like, 'What are you investing for?' and 'Do you have debt?'. A couple of very early questions can judge whether or not using this service is likely to be a better outcome for you. It's about putting up some red flags for the individual who is using the service.

The other observation I have, particularly in regards to the experience out of the US, is that the organisations with distribution are the ones that will dominate the market, and they are often the product manufacturers.

But some of the most successful solutions in the US are actually these hybrid robo digital tools combined with individual planners. For example, a Vanguard personal adviser is not 100 per cent automated. There is still personal human capital involved. It's these hybrid models that combine the human element with technology that are succeeding in the US.

JA: I agree. And that's where the main game is. We've done research on public sector employees, which found that two in 10 would be happy to engage with digital advice without the use of an individual planner, but eight in 10 want to establish trust face-to-face. Of those eight, five are happy to be serviced in other ways, like digital advice and over the phone. Only three of the eight want face-to-face every time.

So, it's how the digital advice component works within the advice relationship. It's not replacing the financial planner but complementing the planner. It's about aiding in engagement, aiding in decisions and reducing costs of service.

JO: It often depends what your value proposition is, because I believe digital wealth management is where we are heading. So, if you're a financial planner and your value proposition is security selection or fund selection, these things will commoditise, making that not a good value proposition for you.

If your value proposition is talking to the client about wealth distribution, goals-based investing, SMSFs and so forth, then that concierge service has a huge value proposition for clients.

So, the delivery of advice is morphing into these hybrid models. Basically, you have the engine underneath doing the actual securities selection and the adviser on top of that communicating to the client via phone or video conferencing, so it's very convenient for the client. The financial planner is doing the concierge service and the engine is selecting the best investments for the client.

As I understand it, the efficiency gains out of Vanguard is that they have lifted from 120 clients per adviser to 600. So, that's a fivefold efficiency gain by effectively using the phone to advise a person and then using the engine to select which Vanguard funds best suit the client's investment portfolio.

Interestingly, the funds management industry is slowly seeing more of its intellectual property driven down to an ETF structure, which is low cost. As a result, I believe those most threatened by this will actually be the fund managers. So, organisations with a large client base will be empowered, while the fund managers will come under increasing pressure.

Q: What are the legal and regulatory ramifications of providing an automated advice service?

BM: The regulatory framework in Australia has for many years been set in such a way that it is channel agnostic. It was designed to allow people to provide advice face-to-face, designed to allow products to be sold directly to consumers, and it was designed to allow technology to have a place in that process.

I think ASIC is under a lot of pressure at the moment to try and make its regulatory framework a lot more easy to understand for new entrants coming into the financial services market. There are many new entrants who have positive solutions they want to get to market quickly and solutions that will help a lot of consumers, but they first need to understand how they can work and operate within the exisiting regulatory framework.

I think ASIC is struggling a little bit in communicating with these new entrants.

Those are the conversations I am having with ASIC. I think the operational framework is in place and the protections for consumers are in place. So, ASIC needs to work at how to make that process more efficient, how to make it easier to understand, and how to reduce the compliance cost that will make it easier for more organisations to enter the market, thereby allowing more consumers to interact positively with their finances.

RM: From a compliance perspective, we can't deliver robo advice under a general advice provision. It can only be delivered under a personal advice framework, which means that the costs of delivering automated investing increases dramatically.

So, we need to rethink what robo advice is. I know that ASIC is doing a lot of work in this area but it all comes back to whether consumers understand what the term robo advice is and whether advisers want to connect with that part of the marketplace.

It can be very unprofitable and there's not a lot of margin in it. It's a competitive price platform and I think institutions are going to dominate this area, rather than advisers. So, advisers getting into this space have got to very careful.

ID: In terms of digital advice, I still think there is a real risk of algorithmic accidents happening. My background is broking. Algorithmic trading is highly regulated by the ASX and ASIC. The level of demands on the organisations around the certification of those algorithms is very high. I'm pleased to see ASIC consulting on what that means in an advice form, because if algorithms go wrong, they really go wrong in a big way, affecting many people.

I look forward to seeing some comparator tables around the actual outcomes to consumers from different robo advice platforms.

> "From a financial planner's perspective, robo advice is really just automated investing. It's an algorithmic term. I think the term robo advice is a misnomer."
>
> – Russell Medcraft

To read more comments on 'robo advice' from FPA practitioner members, go to p10.

To answer questions
www.fpa.com.au/cpdmonthly

JONATHAN ARMITAGE
MLC

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes
- Macro environment
- Managing risk
- Alternative assets
- Hedge funds

The long game

In a low growth, low return environment, advisers and investment managers need to be more prepared, and more risk-aware than ever. This article will examine the long game of investing, when return opportunities are scarce and the lure of alternative assets are in this landscape.

Macro environment

We are in a low growth, low return, ultra-low interest rate environment that is close to being unprecedented and it's a challenging environment for investors. The key priority is working out the best way to continue to manage clients' portfolios, while being very wary of the unique risks this environment poses.

Economic drivers

When thinking about the drivers behind this low interest rate, low growth environment changing, one thing I pay attention to is what is happening in the US.

At the moment there is significant focus on whether the Federal Reserve will raise rates. Economic activity in the US continues to be quite robust – wage growth has picked up, and there is now quite a difference between what markets are saying forward interest rates might look like and some of the underlying data we are seeing from businesses about wage costs which are starting to increase. This all suggests the pressures around wages, one of the key contributors to inflation, are starting to pick up.

However, that is contrary to what we are seeing in Australia. Wage growth here has been quite anaemic.

We are seeing some differentiation with what's happening in the US, where the Federal Reserve is moving towards normalisation of interest rates, and in many other economies where that appears to be some way off. For example, Japan continues to ease monetary policy.

Key risks

There are a number of key risks that advisers and investors need to manage in this current environment.

The biggest risk is that as investors search for return, they move up the risk curve and end up investing in things they don't understand, and are tempted into investments that on the surface look okay but actually carry much greater risk.

Given where bond rates are, using that as a discount on future cash flows, may be the wrong answer. Valuations in a number of asset classes have moved because interest rates are so low. I am wary that investments normally seen as very defensive, such as some government bonds, may not be as defensive given how low yields are.

You have over 50 per cent of the stock of global government bonds now subject to negative interest rates, so these investments would no longer have the defensive characteristics investors would have counted on.

Another key risk continues to be that central banks and governments make policy mistakes.

Whether the US Federal Reserve is behind the curve and inflationary pressures are building to a greater extent than people currently anticipate, or that continued monetary easing is just 'pushing on a piece of string' and not working – the risk of mistakes is significant.

If these policies are pursued, we will see more cheap money coming into the market, which pushes asset prices further and valuations become stretched. This is a risk because at some point, valuations can get to a level where they aren't sustainable.

Game-changers

So, what are the game-changers emerging for Australian investors?

The most interesting possibility is that the Australian dollar will end up weakening. The currency has always acted as a safety valve in Australia; you can see that coming in through economic data – tourism has picked up and exports are up. It is possible that the dollar may end up much lower than it is now.

Performance

What is particularly interesting for advisers and their clients is the fact that there are a number of ways investment managers can get a competitive edge in this environment and deliver decent performance.

The key here is having flexibility in terms of the way you think about asset allocation, and around the way you manage risk.

For example, my approach to asset allocation is quite conservative at the moment. Our cash weighting is relatively high, we have changed our exposure to fixed income – we have brought it down and have focused on shorter duration opportunities. We have also continued to hold our exposure to alternatives, including private equity and our low correlation strategy.

This low correlation strategy is a hedge fund-of-funds investment, that finds returns in components that look very different to equities and fixed income.

Lessons learnt

There are definite lessons we can learn from other markets about successful investment strategies in this kind of environment.

History teaches us that it's so important to be clear about your objectives and focus on how you manage risk. If something looks too good to be true, chances are it is. If you look back at history, you can see the build up of mistakes prior to a crisis. The warning signs are usually there. The important thing to always watch out for is not to be so entirely focused on return that you forget about risk.

For example, we are now again seeing the emergence of complex and opaque instruments that investors don't really understand. Leverage has been increasing again – personal debt in the UK is now as high as it was in 2007, just prior to the GFC. Cheap money encourages people to take too much risk and makes them very vulnerable to changes in short-term interest rates.

Many investors have experienced a period of strong investment returns, so we need to do a better job in educating investors about having realistic expectations about the returns that are available in this environment and the importance of managing risk.

For investors in accumulation phase, I encourage them to stay the course. The lesson post GFC is that people who were still a long way off retirement and held the course recovered, while those who cashed out too soon lost a lot. Not making short-term decisions is important in this environment.

For those closer to or in retirement, it is critical to make sure they understand the risks of what they're investing in and have clear outcomes in mind, rather than just short-term returns. For example, we created the MLC Inflation Plus portfolios, so we could give investors an outcome focused investment option that was strongly focused on risk management.

> "The biggest risk is that as investors search for return, they move up the risk curve and end up investing in things they don't understand, and are tempted into investments that on the surface look okay but actually carry much greater risk."

Alternative assets

There's currently a lot of buzz around alternative assets as a good option for higher returns. So, why is there interest in this asset class?

This interest is as much driven by the fact that we're in a low return environment and the valuations in equities and parts of the fixed income market are at unattractive highs. So, alternatives are getting a lot of attention.

When it comes to the types of alternative assets I'm focusing on, I look for assets that are uncorrelated with mainstream assets and which give us diversification and a different risk profile.

We have a return hurdle of 3 per cent over 90-day bank bills over three year periods. That's our own return hurdle, but if you do that, particularly in a weak equity

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> "… we need to do a better job in educating investors about having realistic expectations about the returns that are available in this environment and the importance of managing risk."

market environment, that's a very attractive return.

To achieve that, we started building a strategy in 2008 that we now call the low correlation strategy. It invests in 12 hedge funds managed by 10 different managers but the whole point is they are not correlated with equities or each other. We decided to aim for a beta of less than 0.2 to equities over three year periods – since its inception the beta and correlation has been zero.

Why have we done this? When markets are weak or when markets fall, we wanted part of our portfolios to be very defensive and we wanted a way to manage risk and diversification well.

The low correlation strategy has evolved, so we now have exposure to things like mortgage pre-payment risk in the US. These are investments in securities linked to the risk that US mortgagees prepay their mortgages faster than expected. This risk isn't directly connected to share market movements, which makes the strategy an attractive source of diversification.

The securities are also complex, hard to model and require careful hedging, which creates alpha opportunities for skilful managers.

We also have systematic strategies that use technology to process lots of information much quicker than the human mind. These strategies have performed very well for us. In our experience, identifying

Contact.
Suma Donnelly on 0404 118 729 or Zeina Khodr on 02 9947 2413
Email us at **fpmag@colloquial.com**

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the best hedge funds requires deep research and a very high quality hurdle.

And there are other strategies that are part of the low correlation approach. For example, we use a manager who incorporates meteorological forecasting, as well as sophisticated supply-demand analysis in order to make money from trading energy futures.

Another area we've recently invested in is merger appraisal rights. This is a niche, distinctive litigation based strategy which involves investing in merger deals where the target company is being acquired at a price that is deemed to significantly undervalue its shares.

What makes this strategy attractive is that there is statutory interest paid to the shareholder pursuing appraisal rights, which is currently cash plus 5 per cent per annum, to compensate them for their capital being locked up during the process. This is paid on top of any uplift to the merger price. Overall, this investment has potential upside, very low downside risk and a very low correlation to share markets.

What to avoid

There are definitely some types of alternative assets to avoid. For example, anything very highly correlated to equities and where you don't think the benefits are exploitable for anything but a short period of time.

One of the other challenges of some of these strategies is that the assets can tend to be quite illiquid, which is something I don't particularly like. Although returns are higher because you receive an illiquidity premium, if markets turn against you, you can end up stuck with the investment.

It's not that easy researching and investing in alternative assets. If you get a lot of money investing into them, returns will be diluted down. I've seen that in the US, where people managing endowments have looked at the returns achieved by Harvard and Yale and tried to replicate them.

If we end up with a $2 trillion industry trying to replicate the same returns, you're going to get some very poor investment decisions being made.

"The key here is having flexibility in terms of the way you think about asset allocation, and around the way you manage risk."

I think in general that alternatives are a very interesting area but I'm also deeply sceptical and think there are more ways to lose money than there are to make money, so your approach to investing has to be right.

Jonathan Armitage is Chief Investment Officer at MLC.

QUESTIONS

1. **Wage growth in Australia:**
   a. Has been quite anaemic.
   b. Has picked up.
   c. Has been similar to what we are seeing in the United States.

2. **Over what percentage of the stock of global government bonds is now subject to negative interest rates?**
   a. 60 per cent.
   b. 50 per cent.
   c. 70 per cent.

3. **The most interesting game-changer for Australian investors is the possibility that the Australian dollar will end up:**
   a. Weakening
   b. Strengthening
   c. Stagnating

4. **Personal debt in the UK is now as high as it was in which year?**
   a. 2008
   b. 2009
   c. 2007

To answer questions **www.fpa.com.au/cpdmonthly**

Rachel Leong
BT

This article is worth
0.5 CPD HOURS
CRITICAL THINKING

Includes
- Any occupation TPD
- Own occupation TPD
- General cover TPD
- Home duties/home maker TPD

TPD definitions: What's the difference?

In 2015, the life insurance industry paid more than $1.57 billion in Total and Permanent Disability (TPD) claim amounts[1]. That's almost double compared to the amount paid in 2014[2]. The most common reasons for TPD claims remain the same across both years – musculoskeletal issues, mental health disorders, and cancer[1, 2].

While we have some understanding of the reasons for TPD claims, we don't often see what the underlying definitions are, and therefore, the relevance of particular types of policies.

This article looks at the different types of TPD definitions under retail and group cover and when they would be used, and the impact of the Stronger Super changes on policy structure.

Retail TPD definitions

Retail insurers will generally offer four types of TPD cover:

- Any occupation;
- Own occupation;
- General cover; and
- Home duties/home maker.

Home duties/home maker policies are generally only available to particular clients, for example, those who work less than 20 hours per week. General cover TPD policies are available to working and non-working clients, but may be less appealing to workers, and therefore, is usually only recommended to these clients if they are unable to obtain occupation-based cover.

Any occupation TPD cover

Any occupation TPD cover is the most common type of TPD policy used for working clients. A typical super or non-super TPD definition may be similar to the following:

"…sickness or injury which has prevented the insured person from working in their own occupation for at least three consecutive months; and the three month period has ended before the review date on or following the insured person's 65th birthday; and the sickness or injury makes it unlikely that the insured person will ever again be able to work in any occupation for which they are reasonably qualified because of education, training or experience."

The first arm of the definition states the required waiting period that must have elapsed, in which the insured person must not have been able to work in their occupation. The shorter the waiting period, the more generous the policy.

The second arm of the definition is aligned with the permanent incapacity condition of release, allowing release of insurance proceeds to the member when an any occupation TPD policy is owned inside super.

Regulation 1.03c of the Superannuation Industry Supervision Regulations 1994 (SIS regulations) states:

"…a member of a superannuation fund or an approved deposit fund is taken to be suffering permanent incapacity if a trustee of the fund is reasonably satisfied that the member's ill-health (whether physical or mental) makes it unlikely that the member will engage in gainful employment for which the member is reasonably qualified by education, training or experience."

Generous non-super any occupation TPD policies will also allow full payment when the insured person is working in another occupation for which they are qualified for, but has significantly reduced income compared to what they were earning prior to the disability.

This is only allowable on non-super policies, as the permanent incapacity condition of release (or any other relevant condition of release) would not be satisfied in these circumstances. That is, the insured person is still able to engage in gainful employment for which they are reasonably qualified by education, training or experience.

Usually, a retail any occupation TPD definition is underpinned by the general cover TPD definition.

This is discussed in the 'General cover TPD' section below.

Own occupation TPD cover

Own occupation TPD cover may be recommended when a client has a specialist occupation, for example, a surgeon. This allows a payment to be made if the insured person is unable to continue in their present occupation, but may be able to work in another occupation.

A typical own occupation TPD definition is as follows:

"…sickness or injury which has prevented the insured person from working in their own occupation for at least three consecutive months; the three month period has ended before the review date on or following the insured person's 65th birthday; and the sickness or injury makes it unlikely that the insured person will ever again be able to work in their own occupation."

In comparison to an any occupation policy, an own occupation policy provides a definition where the insured person can qualify for payment more easily. This needs to be balanced with the additional cost of an own occupation policy, as it is approximately 50 per cent more expensive than an equivalent any occupation policy.

Like any occupation cover, a retail own occupation definition builds on a base level of cover provided by a general cover definition.

General cover TPD

General cover TPD is usually available to both workers and non-workers. A worker may choose this type of cover because they are unable to obtain an any or own occupation policy, due to their hazardous pastimes or occupation.

As mentioned above, general cover provides the base level of TPD cover for occupation-based cover.

It requires the insured person to be very severely disabled to qualify for payment.

General cover TPD policies can provide cover in three different ways. The insured person may qualify for full payment if they:

- are unable to perform at least two activities of daily living (for example, bathing, dressing, toileting, mobility, continence, feeding);
- have suffered from a loss of limbs or sight (for example, either two limbs, sight in both eyes, or one limb and sight in one eye); or
- have suffered from a significant cognitive impairment.

An insured person may be able to qualify for payment under any of the above criteria.

Home duties TPD

Home duties definitions are usually offered to clients who either do not work, or work limited hours.

The adviser's recommendation is based on the cost involved in paying a professional to perform household duties, if the insured person becomes unable to due to a disability.

There may be a waiting period that applies, and a requirement that the client is unable to perform normal household tasks, such as cooking, cleaning, shopping and caring for children.

As the case with occupation-based cover, home duties cover is supported by general cover TPD.

Partial payments

A retail non-super TPD policy may offer a partial payment upon the insured person suffering from a loss of one limb or loss of sight in one eye. The payment will be limited to a percentage of the sum insured, up to a maximum limit, for example, 25 per cent of the sum insured, up to $500,000.

A partial payment is only available on non-super policies, as it would not meet the permanent incapacity condition of release (or any other relevant condition of release).

Group TPD definitions

As most group insurance is offered inside super, this limits the type of TPD definitions available to any occupation, general cover and home duties. The definition that the insured person is assessed under may depend on whether they are employed immediately or shortly before they become disabled. If unemployed, they may be assessed under a general cover definition, which is harder to satisfy than an any occupation definition.

This differs from retail cover, as the definition that the insured person obtains at commencement of the policy, is the definition under which the claim is assessed. With retail policies, general cover is offered as an alternative way to qualify for payment.

Another difference may be that a group any occupation definition will not allow a partial payment, nor a payment if the insured person is able to work in another role at a reduced salary, due to super law restrictions.

You may also see a longer waiting period on group any occupation TPD policies compared to retail policies.

Group any occupation TPD policies have evolved over recent years to include variations, such as retraining and voluntary clauses. An example is provided below.

"You will be considered totally and permanently disabled if:

- *due to your illness or injury, you haven't been able to work in any occupation for at least six months immediately after you became ill or injured, and*

Continues on page 34

Continued from page 33

- *you are following the recommendations of a medical practitioner, and*

- *your injury or illness means that it is unlikely that you will ever be able to work in any occupation that you are suited to based on your previous education, training or experience, or that you may reasonably become suited to with further education, training or experience.*

This will be decided by considering any rehabilitation, training or voluntary work you've done already, or that you could be reasonably be expected to do."

While uncommon, some will also require the insured person to meet both an activities of daily living and inability to work criteria, to receive full payment.

Therefore, the TPD definition within group policies that include these additional specifications are no longer recognisable as what is widely regarded by industry as a standard any occupation TPD definition.

Stronger super measures

Since 1 July 2014, super fund trustees have been unable to offer insurance unless any proceeds payable are releasable under one of four conditions of release. These are:

- death;
- terminal medical condition;
- permanent incapacity; or
- temporary incapacity.

The condition of release most aligned with TPD policies is permanent incapacity. What this means is that any new TPD policies inside super are restricted to those with an any occupation, general cover or home duties definition, with an additional clause included to ensure that the permanent incapacity condition of release is satisfied.

Prior to 1 July 2014, a wider range of TPD policies were offered inside super, including own occupation, with the percentage of premium that can be claimed as a tax deduction by the super fund trustee dependent on the underlying definition.

In lieu of obtaining an actuarial certificate, regulation 295.465.01 of the Income *Tax Assessment Regulations 1997* (ITAR) dictates the tax deductible proportion of premiums paid by the trustee.

This is relevant not only for retail super funds, but also self-managed super funds (SMSFs). The relevant percentages are shown in Table 1.

Any policy that commenced prior to 1 July 2014 is able to remain in super, with the flexibility to increase or decrease the sum insured at any time. This brings into focus not only the value of legacy own occupation policies inside super, but also the associated issues.

There are reasons why own occupation TPD policies were recommended inside super prior to 1 July 2014. The premium could be funded from pre-tax income or the accumulated super balance, and proceeds could be released under any other condition of release under Schedule 1 of the SIS regulations, if the permanent incapacity condition of release was not satisfied.

Therefore, if the client was close to their preservation age, and therefore likely to meet the 'retirement' condition of release, this was a valid strategy.

The issue arises when a client's circumstances change, resulting in a restriction of cover. SIS regulation 4.07D states that the prohibition of certain insurance policies does not apply to *"…the continued provision of benefits to members who joined a fund before 1 July 2014."*

Therefore, if there is a cessation of cover, even if momentarily, these policies will no longer be retainable inside super.

Example

Mr and Mrs Smith are members and trustees of the Smith Family SMSF. In 2013, upon the recommendation of their financial planner, Bob Smith commenced an own occupation TPD policy inside the SMSF.

In the last few years, the time and effort involved in performing their duties as trustees has proved too onerous, and the cost of an administrator was too high. Therefore, Mr and Mrs Smith have decided to wind up the SMSF. Bob would still like to own his TPD policy wholly inside super, so that the effect on his disposable income is minimised.

The TPD policy will need to be cancelled and reissued, and therefore, benefits have not 'continued' per SIS regulation 4.07D. Therefore, Bob must settle for an any occupation TPD policy inside super.

In the example above, we illustrate that if occupation-

TABLE 1

Description	Structure	Tax deductible proportion (%)
Any occupation TPD	Standalone or linked with term life cover	100%
General cover or home duties TPD (with an any occupation clause)	Standalone or linked with term life cover	100%
Own occupation TPD	Standalone	67%
Own occupation TPD	Linked with term life cover	80%

based cover is required, only any occupation TPD cover is now available inside super. For clients who still need an own occupation definition and will pay a proportion of premium from non-super money, this can be provided through a linked policy outside super.

The example below (Table 2) demonstrates how standalone TPD cover can be structured using super linking. Note that upon claim, the insured person will first be assessed against the any occupation TPD definition and any proceeds will be subject to potential superannuation lump sum tax. If they do not qualify under the any occupation TPD definition, they will then be assessed against the own occupation TPD definition.

This could also be structured such that Term Life cover is owned inside super, linked with an any occupation TPD rider inside super and an own occupation TPD rider outside super. The majority (approximately two-thirds) of total TPD premium is funded inside super, and the remainder is paid from a non-super source.

Summary

TPD policy definitions vary widely, as they are created to suit a broad range of clients. Each client segment will suit a particular definition more so than others, and that definition dictates the environment in which it can be owned.

Financial planners who are reviewing a client's insurance portfolio should be well versed on the implications of changing cover, as own occupation policies can no longer be reissued wholly inside super.

Rachel Leong, Product Technical Manager, Life Insurance, BT.

Footnotes

1. The Risk Store: Industry Stats 2015.
2. The Risk Store: Industry Stats 2014.

QUESTIONS

1. Own occupation TPD policies can be owned inside super if:

a. the policy commenced after 1 July 2014.

b. the policy commenced after 1 July 2014 and cover has continued to date.

c. the policy commenced prior to 1 July 2014 and cover has continued to date.

d. the policy is split – with the own occupation portion inside super and the any occupation portion outside super.

2. Retail general cover TPD is usually based on the:

a. insured person's inability to perform activities of daily living.

b. insured person suffering from a loss of limbs or sight.

c. insured person suffering from significant cognitive impairment.

d. any of the above.

3. Underpinning own occupation TPD cover is:

a. any occupation TPD cover.

b. any occupation TPD cover, if linked with term life cover.

c. home duties TPD cover.

d. general cover TPD.

4. The proportion of tax deduction available to a super fund trustee for premiums paid for an own occupation TPD policy linked with term life is:

a. 100 per cent.

b. 80 per cent.

c. 67 per cent.

d. 0 per cent (as new own occupation TPD policies are not offered inside super).

To answer questions **www.fpa.com.au/cpdmonthly**

TABLE 2

Inside superannuation	Outside superannuation
Standalone TPD Policy > TPD Benefit *(any occupation TPD)*	**Super Pus TPD Benefit** *> Own occupatoin TPD portion*

Complaints and Discipline Report

– 1 April 2016 to 30 June 2016 –

Disciplinary Activity Summary

In the April to June quarter, the FPA received nine new complaints, finalised 10 complaints and has three ongoing complaints. Of those ongoing complaints:

- a hearing is part heard before a Conduct Review Commission (CRC) disciplinary panel and has been adjourned until August;
- a Notice of Disciplinary Breach has been issued to a member and the FPA is awaiting the member's response (within 21 days); and
- one matter has been delayed due to the member's circumstances.

COMPLAINTS AND DISCIPLINARY REPORT

1 April to 30 June 2016

Complaints ongoing as at 1 Aptil 2016	4
New complaints	9
Investigations closed	10
Investigations ongoing as at 30 June 2016	3
Members suspended	0
Members expelled (CRC)	0
Members terminated (Constitution) * Dean Williams	1
Other sanctions (CRC)	0
Referred to Professional Designations Committee for sanction	7

Conflicts of Interest – a professional approach

ASIC recently issued its report on its review of *culture, conduct and conflicts of interest in vertically integrated businesses in the funds management industry*[1] (The Report). The Report followed ASIC's review of the management of conflicts of interest in a number of diverse funds management businesses that may be characterised as vertically integrated.

The Report identified specific areas of improvement in order for licensees to meet their legal obligations and suggested future surveillance on culture, conduct and conflicts of interest, not limited to those licensees that are vertically integrated or within the funds management industry. The Report is a useful tool for considering regulatory risk.

The FPA's own broader observations are generally consistent with those made by ASIC that while there appears to be some commitment to managing and avoiding conflicts of interest, there is still considerable ground to be made to meet legal obligations, let alone professional obligations.

At both a fundamental and a professional level, it's not possible to have appropriate conflict arrangements in place if you're not competent in identifying conflicts. According to the FPA Code of Professional Practice 2013[2] (the FPA Code), a member's professional duty to the client requires that the member identify the member's own and any third party conflicts with the interests of the client.

So, what is non-aligned? (A term which is so often propagated in various ways through the trade press, in consumer marketing and appears to be generally accepted industry terminology). There appears to be various interpretations, which in itself is problematic, but in any event it is reasonable to infer that there is an intention to convey an end message as to the absence of a product conflict(s).

Notwithstanding this, on a daily basis we observe instances where financial services parties who have a direct or third party product conflict(s), such as an in-house product or one or more of the functions ASIC rely upon in The Report to define a vertically integrated business, are referred to as non-aligned.

Turning to the FPA Code, there is a professional expectation that licensees, and their representatives, undertake fair and honest communication to the public and that they provide sufficient disclosure to enable consumers to understand and appreciate any licensee and third party influences.

So, in a professional world, is it fair and honest for those with a product conflict(s) to represent themselves, or to be represented, as being non-aligned? Is the extent of the use of the term reflective of the general progress towards a professional culture? It's certainly food for thought.

Another question is whether it is possible to be totally conflict free in the absence of a direct or third party product conflict? For instance, there are those who assert that they are conflict free by virtue of strictly meeting obligations under the Corporations Act, so as to enable them to refer to the licensee being Independent. In some cases, there may also be additional steps, such as excluding asset based fees from their charging model.

Whilst avoiding product related conflicts and any other conflict of interest is not to be discouraged, we think there would be very limited, if any, circumstances where a financial services licensee, or their representative, could truly claim to be conflict free – certainly to the professional threshold.

Turning to Practice Standard 7.5 (Conflicts of Interest and Prioritisation) of the FPA Code, being able to correctly identify situations, arrangements,

relationships and associations that give rise to conflicts is an important professional skill and forms the foundation to responding to conflicts with professional integrity. How often do we hear, "We don't have any conflicts"!

Some of the more pertinent, non-product related conflict aspects of Practice Standard 7.5 include:

- Members need to be aware of their own interests, as well as personal biases, and how these may threaten the member's ability to provide professional services to clients objectively. Some of the more obvious self-interests arise in relation to remuneration from professional services. Some of these self-interest threats to the member's professional duty to the client arise when the member enters into a client relationship for the provision of the member's own services for reward. Examples include:

- When the member recommends services, including the member's professional services, or services be provided by associated third parties, from which the member of the associated third party will benefit commercially (regardless of whether or not there is a referral fee).

- When the member re-contracts with the client for services.

- Members who are not licensees may have obligations to their licensee and/or employer that can conflict with their duty to their client. Such as to generate revenue from time based fees for financial services. For example, a determination (2013_1) by the (FPA) Conduct Review Commission stated that:

The payment by the principal of a salary to the member has obvious potential to influence advice: even if it is a flat salary, there are both legal and practical reasons why the member might put the interests of the employer before those of the client. Even if the member has no say in the quantum and conditions of the salary, the employed member is likely to follow the directions of the employer, and these may diverge from the interests of the client.

- The member's service offering (or that of their employer or licensee) may place limitations on the financial planning strategies, recommendations or services the member is able to advise on. Any such limitation might restrict a member from carrying out their professional duty to the client, requiring the member to decline or cease an engagement.

There are other areas of the FPA Code which interact with the above, such as Practice Standard 7.6 (Professional Service Charging and Renewal). Examples include:

- Cost suitability – Costs of services to the client should be suitable as measured by benefit (tangible and intangible) to the client.

- Suitability of services – Services should be suitable to the client (including, but not limited to, consideration of useability, usefulness, duration, benefit and complexity of these services).

Are your recommendations to your retail clients to acquire or continue a professional service supported by information articulating the reasons for those recommendations in terms of the particular client's circumstances, needs, goals and priorities?

All members should be familiar with and make all reasonable endeavours to embed the FPA Code in all of their professional activities. This should not only facilitate the requisite culture and conduct that your clients and prospective clients are entitled to expect, but also reduce both professional and regulatory risk.

The FPA Professional Accountability team welcomes contact from members who seek information, clarification or guidance on applying the FPA Code.

Amendments to the FPA Disciplinary Regulation

The FPA's Disciplinary Regulation applies to members and the FPA, and describes the procedures and powers of the FPA in its handling of disciplinary activity, as well as describing the actions expected of members engaged in disciplinary activity with the FPA.

The Disciplinary Regulation is a foundational governance document for the FPA and underpins the authority for the FPA to act in accordance with its public interest obligations to respond to allegations of malpractice.

An effective Disciplinary Regulation is necessary for the effective operation of the CRC and our entire private tribunal system. The Disciplinary Regulation balances the interests of the member with the interests of the public and the profession to provide a complaints and disciplinary system that affords high standards of procedural fairness, is independent, efficient and cost effective.

At the June Board meeting, the Board approved FPA Disciplinary Regulation 2016 (effective 1 July 2016), amending FPA Disciplinary Regulation 2011.

The FPA conducted an operational review of the 2011 Disciplinary Regulation with the assistance of the Acting CRC Chair. The review identified a number of technical amendments to the Disciplinary Regulation, with a view to improving the experience for members the subject of complaints and investigations, and other stakeholders. These amendments are intended to:

- lessen risk of processes becoming subject to legal challenge;

- simplify processes and remove unnecessary process duplication;

- bring earlier involvement of the CRC in the disciplinary process;

- improve member communication; and

- improve hearing phase management.

In keeping with the FPA's commitment to good governance principles, arrangements for CRC Chair appointments have also been amended to require that future appointments to the CRC Chair and Deputy will be made by the Board on advice from of an independent committee to be appointed by the Board. This committee will comprise of a person of standing and independent of industry, as chair, the FPA Board Chair, and a consumer representative.

Disciplinary Regulation 2016 applies for any complaint made on or after 1 July 2016. You can download a copy of Disciplinary Regulation 2016 from the FPA website.

Footnotes

1. Report 474 – Culture, conduct and conflicts of interest in vertically integrated businesses in the funds management industry.

2. (FPA) Code of Professional Practice July 2013.

Changes to the pension assets test thresholds and taper rate

From 1 January 2017, the assets test free area and the assets taper rate will increase for all means tested income support payments.

The new measures won't affect the large majority of Australian pensioners. However, Centrelink may reduce or cancel your client's pension if they have significant assets (excluding the family home) when the changes are in place.

From 1 January, pensioners will be able to own more assets before it affects their pension. The assets test free areas are increasing to:

- $250,000 for a single homeowner, up from $209,000;
- $375,000 for a homeowner couple combined, up from $296,500;
- $450,000 for a single non-homeowner, up from $360,500; and
- $575,000 for a non-homeowner couple combined, up from $448,000.

The fortnightly taper rate will increase from $1.50 to $3.00 for every $1,000 above the new assets test free areas. Your client may see a reduction in their pension if their assets are over:

- $291,000 for a single homeowner;
- $453,500 for a homeowner couple combined;
- $539,500 for a single non-homeowner; and

- $702,000 for a non-homeowner couple combined.

Your client may get an increase in their pension if their assets are below these amounts.

In December 2016, the Department of Human Services will send pensioners who may be affected a letter to advise them of changes to their pension from 1 January 2017.

If the change is likely to affect your client's pension, you may wish to inform them and discuss how it may impact their financial situation.

If your client loses eligibility for the pension as a result of the changes, the Department of Human Services will automatically issue them a Low Income Health Care Card.

If they are over Age Pension age on 1 January 2017, we'll also issue them a Commonwealth Seniors Health Card.

Those individuals under Age Pension age can also apply for a Commonwealth Seniors Health Card when they reach Age Pension age.

They'll be exempt indefinitely from the usual income test requirements for these cards.

For more information on these changes, including the new pension indexation rates due to come out on 20 September, we advise planners to go to humanservices.gov.au

FPA Chapter directory

New South Wales

Sydney
Marisa Broome CFP®
Chairperson
T: 0413 588 680
E: marisa@wealthadvice.com.au

Mid North Coast
Julie Berry CFP®
Chairperson
T: (02) 6584 5655
E: jberry@berryfs.com.au

Newcastle
Mark Alexander CFP®
Chairperson
T: (02) 4923 4000
E: mark.a@crosbiewealth.com.au

New England
David Newberry AFP®
Chairperson
T: (02) 6766 9373
E: david@newberry.com.au

Riverina
Marie Suthern CFP®
Chairperson
T: (02) 6921 1999
E: msuthern@fsfp.com.au

Western Division
Peter Roan CFP®
Chairperson
T: (02) 6361 8100
E: peter@roanfinancial.com

Wollongong
Mark Lockhart AFP®
Chairperson
T: (02) 4244 0624
E: mark@allfinancialservices.com.au

ACT

Claus Merck CFP®
Chairperson
T: (02) 6262 5542
E: claus.merck@actwealth.com.au

Victoria

Melbourne
Julian Place CFP®
Chairperson
T: 0418 111 224
E: julian_place@amp.com.au

Albury Wodonga
Wayne Barber CFP®
Chairperson
T: (02) 6056 2229
E: wayne@mws.net.au

Ballarat
Paul Bilson CFP®
Chairperson
T: (03) 5332 3344
E: paul@wnfp.com.au

Bendigo
Gary Jones AFP®
Chairperson
T: (03) 5441 8043
E: garyjones@platinumwealthbendigo.com.au

Geelong
Brian Quarrell CFP®
Chairperson
T: (03) 5222 3055
E: brian.quarrell@bendigoadelaide.com.au

Gippsland
Rod Lavin CFP®
Chairperson
T: (03) 5176 0618
E: rodneylavin@bigpond.com

Goulburn Valley
John Foster CFP®
Chairperson
T: (03) 5821 4711
E: john.foster@bridges.com.au

South East Melbourne
Scott Brouwer CFP®
Chairperson
T: 0447 538 216
E: scottb@prosperum.com.au

Sunraysia
Stephen Wait CFP®
Chairperson
T: (03) 5022 8118
E: stephenwait@thefarmprotectors.com.au

Queensland

Brisbane
Steven O'Donoghue CFP®
Chairperson
T: 0457 528 114
E: steven.odonoghue@suncorp.com.au

Cairns
Kris Robertson AFP®
Chairperson
T: 0439 724 905
E: kris.robertson@bdo.com.au

Far North Coast NSW
Shane Hayes CFP®
Chairperson
T: 0411 264 002
E: shane@sovren.com.au

Gold Coast
Matthew Brown CFP®
Chairperson
T: 0418 747 559
E: matthew.brown@miqprivate.com.au

Mackay
James Wortley CFP®
Chairperson
T: (07) 4957 1600
E: james@efsmackay.com.au

Rockhampton/Central Qld
David French AFP®
Chairperson
T: (07) 4920 4600
E: david_french@capinvest.com.au

Sunshine Coast
Andrew Geddes CFP®
Chairperson
T: 0437 835 609
E: andrew.geddes@miqprivate.com.au

Toowoomba/Darling Downs
Bob Currie CFP®
Chairperson
T: 0420 301 081
E: bob.currie@altitudews.com.au

Townsville
Gavin Runde CFP®
Chairperson
T: (07) 4723 9188
E: gavin@runde.com.au

Wide Bay
Louise Jealous-Bennett AFP®
Chairperson
T: (07) 4153 5212
E: louise@c2g.com.au

South Australia

Petra Churcher AFP®
Chairperson
T: (08) 8291 2800
E: pchurcher@ipacsa.com.au

Northern Territory

Susie Erratt CFP®
Chairperson
T: (08) 8980 9300
E: mha50580@bigpond.net.au

Western Australia

David Sharpe CFP®
Chairperson
T: (08) 9463 0047
E: david.sharpe@globefp.com.au

Tasmania

Todd Kennedy CFP®
Chairperson
T: 1300 651 600
E: todd.kennedy@mystate.com.au

Member Services:
1300 337 301
Phone: 02 9220 4500
Email: fpa@fpa.com.au
Web: www.fpa.com.au

FPA Board

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Board Committees

Regional Chapter Committee
Matthew Brown CFP®
E: matthew.brown@miqprivate.com.au

Professional Standards and Conduct Committee
Mark O'Toole CFP®
E: motoole@ascentpw.com.au

Audit Committee
Philip Pledge
E: phidpledge@bigpond.com

Governance and Remuneration Committee
Neil Kendall CFP®
E: neil.kendall@fpa.com.au

Policy and Regulations Committee
Marisa Broome CFP®
E: marisa@wealthadvice.com.au

Professional Designations Committee
Julie Matheson CFP®
E: so95678@bigpond.net.au

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