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**Financial advice under demand pressure**

Michael Dwyer, fellow members of the panel, ladies and gentlemen.

Thank you for inviting me to attend this conference today.

In the short space of time that has been allocated in this set piece segment I would like to cover two key themes:

Just what is the current state of consumer opinion on the advice that they have received?

What are the demand and supply factors that underpin the financial advice industry?

I will begin with some evidence on the state of play re: consumers and financial advice.

### **Consumer confidence and advice**

We at IFSA have conducted four independent tracking surveys on issues relating to consumer confidence, including advice.

The first point I would make is that our 2006 data shows that the overall level of satisfaction with advice is very high.

In fact, it increases the more our consumers interact with an adviser. Those customers seeing an adviser annually report 88% levels of satisfaction.

The second point I would make on consumer confidence with advice is that people who meet with planners are indicating that have greater control over their future (better financial planning for retirement 81% agreement, confidence to make better investment decisions 80% etc).

In our most recent survey of 500 adult Australians, those with a planner felt much more prepared for retirement than those that don't currently have a financial adviser (40% of those yet to retire were confident that they had saved enough versus 20% for those not using an adviser).

As advice is often given in the context of membership of a super fund - or is paid for via a product, it is worth examining the customer satisfaction factors and how they have been tracking since the introduction of the FSR reforms.

In terms of performance across the 13 points of investor satisfaction, our survey showed that the industry's performance

has lifted by about 20% from a Likert rating of 6.3 to a new level of 7.4.

Our *best* results were in fees [value for money in the eyes of consumers], where the rating has gone from 5 to 6.5. Advice has gone from just under 6 to just under 7, and *trust* has gone from 7 to 8.

Similarly the other key factor, reputation, has risen from 7 to 7.7).

These are good results and indicate across the industry just how much improvement there has been. It is not surprising that there is possibly unprecedented consumer demand for financial advice.

It might be said that this sentiment is being driven by markets - and no doubt there is an element of truth for adherents of this theory, however, consumer sentiment is continuing to improve.

## **The supply crisis**

The second leg of my presentation is to alert you to a major problem that *we all have* in delivering advice to Australians.

We have a supply crisis, and how we address this matter is critical to the future of millions of our customers.

Currently, we have about 16,000 full-time equivalent planners.

This number might be more if you take into account the fact that many planners are accountants or operate on a part time or semi retired basis.

But 16,000 is the number most agree is the full time equivalent statistic.

Data which was unveiled at last years FPA Conference showed that the large dealers will experience 10% net growth in planner numbers. They also need to find replacements for the 10% of

planners who will be retiring. So recruitment will increase by 20%.

It is worth making the cybertrip to *seek.com*. to see this in action. In a one month period (Feb/March 2007) 1200 financial planning jobs were listed by *seek.com*. And yesterday the number had escalated to 1320.

My contacts with the major dealer groups repeatedly reveal that they need more planners than are available. Our inquiries reveal that for some of the bigger firms, although a client may be able to get an appointment to see a planner in around a week, it will take up to 2 months for them to actually receive a plan.

Given that we are now at the end of March, this is cutting it VERY fine for people planning retirement against this year's June 30 *Simpler Superannuation* deadline.

In fact, one of our larger members reports that they could currently use 2-3 times the number of planners that they currently have to handle the workload.

What we have is a recruitment bonanza.

This will probably lead to spiralling remuneration...whether via salary, flat fees, profit shares, bonuses or trails.

And it could also lead to fringe benefits on offer from dealer groups so that they can snare and retain the best planners on offer.

Retention has also become a critical factor. The FPA presentation last year revealed that \$200,000 in capital expenditure is lost every time a planner exits a dealership.

What we have in Australia is a surging demand for advice which is outpacing supply.

In consumer terms there are at least a million Australians who need advice, today, who are in all probability not going to get it.

The numbers involved here are simple.

If we have, say, ten million customers and let's say that only 50% need and want advice – that makes five million in search of advice.

We have 16,000 planners who can handle, say 250 clients each.

That equates to a supply which can meet the demands of 4 million Australians.

These figures suggest that the industry is unable to meet the needs of at least 1 million of its savers/ retirees.

And that is based on conservative take up rate of 50%. What if it were 60% or even higher? You can do the sums.

We therefore have a dilemma. We have a drastic shortage of planners at present.

There are no quick-fixes and no significant measures in place to boost supply.

The outworking of FSR has not been sympathetic to scaled advice or more efficient methods of delivery.

IFSA supports the FSR Refinements proposals and looks forward to progressing reform in relation to the distinction between general and personal advice. This we believe is the path that should be taken.

Importantly, we need to uphold two key principles, viz:

- the need for advisers to know their client; and
- to give advice which meets their client's needs.

The industry at large and the regulator, ASIC, need to collaborate expeditiously to come to solutions that will boost both adviser numbers and throughput. IFSA for one will be endeavouring to do just this.

But we have continual calls to increase compliance and actually raise the quality bar. If these calls are heeded the shortage will become even more apparent.

Under this scenario the wealthy will ‘cream off’ the best of the advisers at a higher price, and the less well off, including middle Australia, will be deprived of advice. The result will be an increasing disenfranchisement of quality, affordable advice for middle Australia.

Lest I be accused of ‘puffery’ when talking about this unmet need, I draw your attention to the latest Sensis Consumer Report, dated March 2007 and I quote:

**“The area we most likely expect to increase the amount of time we spend over the next year is financial management and planning. Overall, 39 per cent of Australians expect to spend more time on financial management, compared to only five per cent that expected to spend less time”.**

**“The income demographic with the highest net balance of people expecting to increase the time they spent on financial planning was those with incomes between \$55,000 and \$85,000, whilst those with incomes up to \$35,000 were least likely (50 per cent compared to 15 percent)”.**

Interestingly, this \$55K to \$85K band is also the demographic which it has been suggested would benefit from an extension of the hugely successful Co-contribution. For someone with a mortgage and a couple of kids in Sydney or Melbourne, the average weekly wage of \$55K puts them firmly in ‘battler’ territory.

We should therefore be spending more of our energy in the advice/planner debate worrying about delivery. We should be more confident in the fact that FSR has delivered better standards of advice.

As Barrie Dunstan pointed out in last month's edition of *Asset Magazine*, this is the Year of Superannuation for many investors and financial advisors and we have a system that is the envy of North America and Britain. We now have bi-partisan political recognition as to the value of financial advice - and I share Barrie's view that we mustn't allow pride to tempt us into thinking that the hard work is over.

In closing, I can assure you that IFSA will be intensifying its efforts to improve the delivery of – and access to- financial advice for all Australians and to ensuring that as far as our member companies are concerned, that financial planning is a career choice of which people can be proud.