

Independent Advice

New government legislation is designed “to promote the sound and efficient delivery of financial advice and to encourage public confidence in the professionalism and integrity of financial advisers”. Yes that might be the sound you can hear of the stable door being shut but it is a useful starting point before the next financial disaster posing as a sure thing comes along, as it inevitably will.

Part of the package includes a Code of Professional Conduct that sets 21 minimum standards of adviser competence, knowledge and skills, ethical behaviour and client care. In our view the two most important principles are the requirement to place the interests of the client first and a definition of independence. While the first point is self-explanatory, the second requirement has largely been driven by consumer groups concerned over the integrity of any new system.

Essentially advisers will not be able to offer independent advice if they take commissions, offer their own products, are related in any way to product suppliers or receive a benefit from any person other than their client.

In Australia over 85% of the 16,000 financial advisers are associated with a product manufacturer in some way and few actively promote their independence. In NZ, total adviser numbers will not be known until registration is complete but it is expected that the new rules mean very few will be able to call themselves independent. We expect it could be only a handful of people.

While independence itself is not a panacea for poor advice, the transparency afforded by the new regulations will help investors understand who they are paying and for what. From our own experience we know the benefits independence has brought our clients include: being able to shop around for the best pricing; no production targets so we have avoided poorly structured products; flexibility of investment solutions and the alignment of interests since our fortunes are inextricably linked with how well our clients are doing.

Australia has just gone one step further by announcing a plan to ban all product commission's from July 2012 in an effort to “tackle the conflicts of interest and mis-selling of financial products”. At this stage the NZ government has backed away from doing the same but only time will tell whether consumer pressure forces them along the same path.

