After the storm

Martin Mulcare says the collapse of Storm Financial provides an expensive insight into where the Australian financial planning industry is right now

The collapse in January of Storm Financial has a number of possible implications for owners of advice firms.

1. Wherever you wish to place blame, the financial planning industry's reputation has suffered further damage. In the current market, owners of financial planning practices should not take their credibility for granted. If trust is the single most important quality that financial planners are offering, we should go back to the first principles of our client relationships with every client (from your very next review). It is vital that you re-earn their trust that your firm is the best firm to help them achieve their financial destiny.

2. A lawyer type is going to ask why Storm's professional indemnity cover was not aligned with the aggregate liability in the advice delivered to clients. This could have significant ramifications for our whole industry (that is, brace for higher premiums).

3. The Minister for Superannuation and Corporate Law, Senator Nick Sherry, has already suggested a new legislative regime for margin lending from July 1 this year. Expect more paperwork, more compliance, and thus more costs of internal and external scrutiny in your firms if you advise on margin loans.

4. The pre-crisis investment hysteria has well and truly been replaced with distrust, uncertainty and new heights of financial anxiety among our clients. This provides significant opportunities as few people are confident their financial affairs are on track today. It's not only ex-Storm clients but all clients whose expectations about their desired financial reality are not being met.

5. Risk profiling may come under a new microscope. It's too easy to blame greed on the part of Storm's clients, or the fact that they didn't read the fine print. Plain-language risk profiling may become more necessary in the client "discovery" process so the risks the clients are undertaking are better understood.

6. As many accounting and legal firms become more experienced with financial planning and as their professionals become accredited in the delivery of financial advice, there will be an increase in "second opinion" services. These will be made available to prospective clients to provide an impartial, arms-length opinion on advice given by financial planning firms.

7. Humans continue to be uncertain creatures! Convincing ordinary pensioners to have the courage to leverage a paid-off house against an uncontrollable sharemarket is testament to the factors underpinning behavioural finance (and the sales ability of Storm Financial). Owners of advice firms must continually train their team in these influencing factors to better serve and anticipate their clients' financial decision-making.

8. Remuneration practices based upon products will come under more public pressure. The gearing and advice pricing models within Storm were intertwined. The more gearing, the higher the fee. This model shares the rewards of growth between client and adviser (similar to success fee payment) but there seemed to be no provision for sharing the results of losses. This provides more evidence damning the role of pricing that is based upon products and not on the quality of advice.

9. Clients continue to either not read (probably) or understand (possibly) the fine print of their statements of advice. They're either too busy, not interested, too trusting, or don't understand it (and they probably never will) no matter how many times they are required to sign that they have read it all. It's impossible to totally protect people from their own decisions - but still expect a re-examination of the "authority to proceed" process.

10. The Government will accelerate the development of low-cost impartial and scalable advice providers. There is an increasingly popular view that people with compulsory superannuation balances have a right to impartial advice. If people are being forced to save, it follows that they should have easy access to impartial advice or second opinions on their compulsory super in the very least.

11. The Australian Securities and Investments Commission (ASIC) will become more powerful and its reach will be broadened to cover all aspects of financial advice. Protection of consumers' money is high on every government's agenda at present. Even though incidents such as Storm Financial, Opes Prime and Westpoint are thankfully rare, further power will be allocated to ensure these are minimised. (That is, expect even more compliance.)

The primary insight for me is that the upfront and ongoing basis of the adviser–client relationship has to be the outcome the client is seeking rather than the fees the adviser is charging.

It can't be debated that up-front Storm Financial did a brilliant job at engaging their clients. They identified long-term outcomes that their clients clearly desired even though the assumptions in their projections were incorrect.

For our industry to ever become a profession, advice has to have more of an ongoing re-engagement with each client at every meeting, every year and be priced on the quality of the advice, rather than the quantity of product sold.

These are great times to be working with your clients, testing their assumptions, better understanding their desired financial goals and ensuring the direction and leadership you are providing is still the best path for them to follow.

There is no doubt that the demand curve for advice has flipped in the past 18 months (remember the hectic June/July 2007). This is the worst crisis since the last one and will be until the next one. Whilst crises are certain, the intent, outcome and expertise of your advice should never be doubted or based on anything you can't deliver. ■

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