

**Financial industries are supervised by a number of regulators**

- **RBA** – monetary policy, financial system security and payment system regulation
- **APRA** (*Australian Prudential Regulatory Authority*) – prudential regulation of deposit-taking institutions, life and general insurance and superannuation
- **ASIC** (*Australian securities and investment commission*) – market integrity, consumer protection, regulation of businesses
- **ACCC** (*Australian Consumer and Competition Commission*) – Trade Practices Act, protect consumers in the financial service industry

**Reasonable Basis:**

- Provision of finance advice must be client-centric not product-centric, has to meet the requirement of **s945A Corporations Act** of the Corporations Act
- To optimize outcome, advisers should take consider **financial planning variables**: superannuation, insurance, tax, social security, estate planning, debt, salary packaging, savings and investing etc.
- **Obligations** – **know your clients and product rule**, reasonable basis for advise, investment risk, longevity analysis, disclosures and disclaimers, ongoing review, limited product availability and client information, advice records
- **Ongoing issues for financial advisers**: Technology, monitoring and review, goal achievement, keeping up, client privilege, continuous improvements etc.

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**Lecture 3 – Providing financial advice (Chapter 3, 4)**

**Client-advisor relationship**

- Good quality financial advice improves a client's financial situation or prepares their client for the future

**Information Exposure**

- Client determines whether information is useful, relevant and reliable
- Advisers answer clients' concerns, manage, educate information to clients
- High asymmetry information leads to market failure

**Australian Security and Investment Commission (ASIC)**

- Requires advisers that effective advice can only be given to clients when significant information of clients are disclosed to advisers
- Info could be: income, risk tolerance, taxation, current investment, superannuation and insurance
- Advisers need to determine clients' knowledge on finance, acknowledged clients might want to be active instead of following guides, but still need to explain finances to well-educated clients

**Compliance**

- Financial advisers have to be compliant or else he/she will be banned from the industry (regulation)
- Ensure data collection and client discussion process is effective
- Ensure there is a valid risk tolerance assessment
- SOA should be kept as simple as possible, consistent with goal-based advice
- Clients must be provided informed agreement (full info, understand, considered, made their own decision)

**Financial Planning Process (FPP)**

- 1) **Collect and evaluate financial data of the client (know your client rule)**
  - **Quantitative data**: financial data, personal info, goals with a time frame

- *Qualitative data*: goals and objectives, issues and concerns, future needs and earning rates
- *Assessed data*: risk tolerance, longevity probability, level of financial literacy
- Create an atmosphere of trust (body language, jargons, attitude etc.)
- *Technical info*: age, status, dependents, financial information etc.
- *Marketing info*: market segmentation -> goals, needs, styles of approach
- *Psychological info*
- 2) **Determine the objectives and goals of the client**
  - Analyze client's current *cash flow situation, net worth* and *dollar value for future needs* to determine if goals are achievable (redefine goals)
  - Consider the salary growth to determine retirement income
- 3) **Identify potential financial problems**
  - i.e. save more spend less, work longer, higher level of investment risk etc.
- 4) **Prepare a written plan with alternatives and recommendations (SOA)**
  - Asset allocation proportions
  - Select appropriate investment types & products
  - Document which outlines recommendations and how they'll meet goals
  - Should be as simple as possible
- 5) **Recommendations and implementation**
  - Usually this is the last interview before implementation begins
  - Include timeline and complete service agreement between client & adv.
  - Disclaimer should be used to limit advisers' liability
  - Normally clients have to sign an Authority to Proceed
- 6) **Review the plan**

#### **Statement of Advice (SOA)**

- **Cover letter** – disclaimer and warning that decisions in SOA must be made within 30 days
- **Cover page** – states this is SOA, name of plan recipient, date, name and contract details of advisor, name and contract details of licensee who authorized the SOA, warning box
- **Executive summary** – states key personal details of the client, summarizes the client's agreed goals and objectives, states each main recommendation, and the expected outcomes from each recommendation
- **Table of contents/ body** – **basis for advice**, recommendations incl. justification, impact, cost-benefit and risk analysis, implementation schedule, fee disclosure and disclaimers, client sign-off, appendix

#### **Basis for advice**

- Clear restatement of all client info
- Estimated current cash flow that identifies excess savings to fund goal
- Client's assets and liabilities
- Review of client's goals, discuss trade-offs and costs made with goals
- Risk tolerance & asset allocation
- Personal and financial assumptions (include longevity)
- Client's potential concerns and issues in achieving goal
- Source and use of funds chart

#### **Risk profiling**

- Educate clients and assist them to understand their attitude to risk
- Allow adviser to better understand their clients (know your client rule)
- Questionnaire should be simple and easy to complete (reflective)
- Aggressive>Assertive>Balanced>Moderately conservative>Conservative-Defensive