



PROFESSIONAL PLANNER  
INSPIRING ADVICE

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### RIP THE PRODUCT PUSH?


Why universal drawdown rules may be a better idea than mandating products

### INSURANCE BONDS

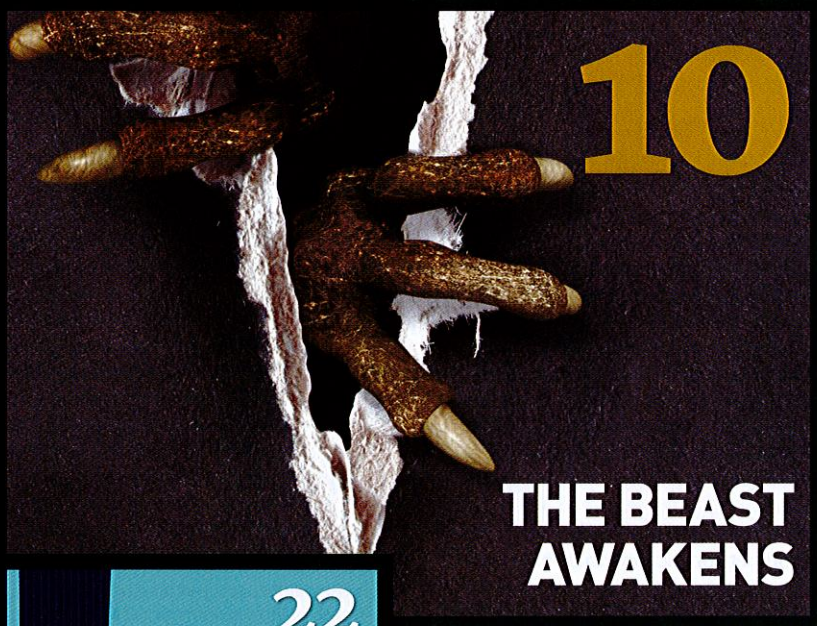
Assessing planning strategies and the asset classes that drive these products

### SELF-MANAGED SUPER

The day the ATO actually delivered good news to SMSF members

A bear's head and paws are shown tearing through a hole in a dark, textured surface. The bear's head is at the top, with its mouth open, showing sharp teeth. Its paws are visible below, with long, curved claws. The hole is jagged and irregular, with white, fibrous material around the edges.

# THE BEAST *awakens*



## By association

**28** Andrea Slattery – SPAA

**44** Mark Rantall – FPA

**45** Brad Fox – AFA

## Regulars

**4** From the editor

Non-aligned groups coming back into fashion

**6** Wrap

A review of the month that was, including numbers, poll results and highlights from Professional Planner online

**46** Final Word

When Dixon went to fill up the car, he felt pressured to fill up his stomach as well

## Features

**8** Perspective

Mark Everingham examines whether vertical integration is necessarily the evil it's made out to be

**10** Cover story »  
The beast awakens

Key non-aligned licensees hope the promise of flexibility and independence will lure an increasing number of financial planners to their ranks

**18** In focus »  
The retirement bucket list

Creating investment solutions for clients nearing or in retirement is exercising the best and brightest minds in the business

**22** Retirement incomes policy

David Shirlow examines whether universal drawdown rules might be a better idea than mandating particular products

**26** Self-managed super

Bryce Figot looks at the day the ATO actually delivered good news for SMSF members in the form of potentially lower tax bills

## PROFESSIONAL PLANNER

SEPTEMBER 2014

**29** In focus »

A down-the-line endorsement

BOQ Specialist believes tailoring products to financial planners' own needs will encourage them to recommend the products to clients

**32** Insurance

Linked insurance policies can help advisers get around the problem of offering insurance cover inside superannuation funds

**35** Best practice

Martin Mulcare says that solving important financial problems often has nothing to do with investments

**36** Technical

Crissy DeManuele says advisers seeking tax-effective strategies for clients on high tax rates are reassessing the appeal of insurance bonds...

**38** Other people's money

...while Dug Higgins looks at the asset classes and the strategies that drive the performance of this re-emerging class of product

**40** Venus

Men and women have different ways of saying the same thing, and understanding the differences can help bridge the communication gap

**41** The profession

Robert MC Brown says band-aid solutions will not help to solve the reputation that the financial planning industry currently has

**42** Philanthropy

Wider family involvement in private ancillary funds is an opportunity for financial planners to deepen client relationships

**43** Sharemarket

Ron Bewley offers some advice on how to avoid the hangover when the yield-seeker's party comes to an end

# CAN VERTICAL INTEGRATION IMPACT CLIENTS POSITIVELY OR NEGATIVELY?

**It is the culture of a business – either product-led or advice-led – rather than the style of vertical integration that ultimately determines if clients are better or worse off, says Mark Everingham.**

**W**ith the majority of Australian Financial Service Licensees (AFSLs) being fully or partly owned by product manufacturers or institutions, I feel there are two styles of vertical integration emerging.

The first is a “top-down” model, which flows from product manufacturer/institution, to ASFL, to adviser, to client. This model is owned by the product manufacturer/institution.

The second is a “bottom-up” model, which flows from client, to adviser, to AFSL, and is independent of institutional involvement. This model is owned by the adviser(s).

However, I don’t believe the style of vertical integration per se is what can impact clients positively or negatively. I believe it’s the culture of the business.

Is the culture product-led, where the ultimate form of remuneration is via the sale of a product? Or is it an advice-led culture, where the business has a structured and methodical advice process for which the business is remunerated, whether or not a product is placed.

Being a life-risk and succession specialist, allow me to provide two examples, which I have seen personally. You can decide, for yourself which culture sounds best.

## CASE STUDY 1

A medical specialist has an existing portfolio of cover in place. The portfolio, held appropriately, meets this client’s needs after undergoing a structured process of advice and refinement. An annual review is offered to the client to ensure the portfolio is appropriate for that client’s changing circumstances.

A couple of years pass and this client attends a medical conference. Amongst the trade booths there is a risk-specialist financial planning firm that approaches this client to advise that, as a specialist in the medical area, it could provide this client with either a better quality portfolio at the same premium, or an equivalent portfolio at a cheaper cost. All the client needs to do is provide a copy of the existing portfolio and the firm will provide a free comparative report.

The client receives the comparative report, stating that a like-for-like comparison has been completed and that an alternate portfolio can be provided at an 8 per cent premium reduction. The alternate insurer is not named; and the report goes on to provide ratings comparing six insurers. There is no link between the quoted premium and the products compared in the ratings report. The implication is that the current product held by the client is of inferior quality and a more superior contract can be obtained at a cheaper price.

Whilst an adviser should not place complete faith in a ratings report – as these are a guide only and should not be relied upon as the only source of product research (that’s a story for another day) – the report did not even compare the correct policy type, making it completely inaccurate and quite frankly misleading to the client.

What really failed to occur in the report was any attempt to address the client’s personal circumstances or estate planning objectives, and how the existing portfolio addressed these needs – or failed to meet these needs, as the comparative report suggested. Furthermore, the report did not disclose that changing insurer would re-start the three-year non-disclosure period under the *Insurance Contracts Act*.

## CASE STUDY 2

A chartered accountant is being made partner of a major accounting firm. The client has an existing portfolio of cover in place. As a new partner, the client is provided with a package of insurance, funded by the firm. The client has not reviewed his affairs for some time and is concerned that he may be over-insured and that his portfolio does not meet his estate-planning objectives.

In this instance, the adviser outlines to the client the advice process that is needed, as follows:

- Educate the client on life risk management and the associated estate planning implications;
- Audit the client to understand their current family structure, financial and health position;
- Understand the objectives the client would like to achieve should death or disability occur;
- Formulate advice to identify, quantify and transfer those risks, as well as establish the required estate-planning structure to support the risk management strategy;
- Overlay the existing cover to ensure the client’s needs are met and ensure the suitability of those covers;
- Prepare and present a statement of advice to recommend the cover to be held, reduced, increased, replaced or ceased, appropriate to the client’s objectives.

In this case the adviser has an in-depth and methodical process to address the client’s needs and objectives and a fee is charged to prepare the advice, irrespective of the product outcome.

In both of these examples, commission is taken on any new insurance implemented, as well as a trail commission on any continuing cover. Interestingly, both these advisers are part of institutionally owned licensees, albeit separate ones.

So the question is not as simple as whether vertical integration can impact clients positively or negatively but rather, what is the culture of the business, and who is controlling it? Is it a product-led culture or an advice-led culture? ■

**Mark Everingham is managing director of Personal Risk Professionals – [www.personalriskprofessionals.com](http://www.personalriskprofessionals.com)**