Clarity
Advisory & Training Solutions

FOFA and Our Proposed Win-Win Solution

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Root Causes of Conflicts of Interests in Financial Advice Issue	Our Proposed 4-Steps Solution: - "Rename, Divide, Empower, Conquer"	Benefits to various stakeholders
1. A **disparity** in consumer understanding (to them, 'financial planning' means 'planning one's finances with all available financial instruments), versus the financial planning industry reality and practices (confined to 2 main types of financial instruments – life insurance products and managed funds within superannuation environment). 2. **Remuneration structures** in financial planning industry (even for most of the 'Certified Financial Planners') are tied to sales of the 2 financial instruments – life insurance products and managed funds within superannuation environment.	**<u>1. Rename:</u>** Clarify and clear up the disparity and confusion in the general consumers' perception and understanding of what financial planners do and type of advice they provide by renaming the financial planners to 'life insurance specialists' or 'superannuation specialists' or both, depending on the financial planners' experience, qualifications, and preferences. **<u>2. Divide</u>** Financial advice can be divided 2 major segments: (1) Financial concepts & strategies + (2) Technical/specialist expertise & knowledge of financial products **<u>3. Empower</u>** a. Create new group of professionals ('personal financial assistants' /'PFAs'), the "impartial gatekeepers", trained in general yet holistic financial concepts and strategies, and project co-ordination skills; b. Empower retail clients by having PFAs teach them financial concepts and strategies and guide them to develop own financial strategy, and c. Refer to appropriate financial specialists for specific product advice and implementation, as required. **<u>4. Conquer:</u>** Existing relevant governing bodies and associations of the various financial specialists to continue to look after regulatory compliance and best practices in their own specific financial sector & give more power to enforce the compliance measures.	**Benefit to general consumers:** With renaming, in spite of low financial literacy levels, the general consumers will know without a doubt that the financial advisers they consult with are limited to providing advice on the various specific classes of financial products only. With PFA strategy, general consumers empowered, and simplicity of the overall financial concepts can help them get more interested in their own financial futures, and raise overall financial literacy levels. **Benefit to current body of financial planners:** Financial planners' image now in tatters due to recent scandals like CFPL. The renaming and clarification demarcates those who are truly qualified to advise from those who are not. PFA strategy can provide alternative to those who do not want to specialize to move into another area where they can be of greater use to industry and public. **Benefit to banks:** Banks can use PFAs to remove internal counteractive force (page 3 of report), and also create personalized wow experiences and increase customer engagement and ultimately greater market share. **Benefit to regulators:** Easier way to separate the financial planners who work only in the life insurance, managed funds, and superannuation space from the 'holistic financial advisor' image they currently are accorded by general consumers. Conflicts of interests can then be limited, regardless of whether commissions are banned or re-introduced one way or other. Also easier to manage individual groups with vastly different requirements than all together at the same time. **Benefit to Government:** Creation of Jobs

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FOFA and our Proposed Way Forward

To remove a thing that someone is clinging very tightly onto, (because he perceives that's all he has and his livelihood depends on it), you have to first offer something else in exchange. When the other party views what you have in exchange is of fair and perhaps more suitable and profitable value, he will willingly let go and give up whatever you want him to. That is only human nature.
To forcibly remove anything from anyone, especially if it affects their livelihood, will only cause grief to all parties involved.

With that understanding and philosophy, we have created our 4-step solution to FOFA reforms. A solution that we believe is a viable, more profitable way out for the various stakeholders involved, to replace that which is currently working to their detriment one way or other, and to create 'win-win' outcomes for all.

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"Structuring solutions to create 'win-win-win' outcomes for all stakeholders"

FOFA and Our Proposed Way Forward

Preface:

The issue of conflicts of interests runs deep throughout the current Australian financial planning industry, and has spread to, and affects the Australian banking industry at large as well. The FSI Interim Report notes: "Conflicts of interest have been a longstanding issue in financial advice." And that "there has been a tension between providing financial advice for the benefit of consumers and the product distribution role played by advisers" and "the principle of consumers being able to access advice that helps them meet their financial needs is undermined by the existence of conflicted remuneration structures in financial advice."

But why is there the problem of conflicts of interests in financial advice in the first place? Are the conflicted remuneration structures in financial advice the only root cause of the problems, such as in the high profile case of Commonwealth Financial Planning (CFPL) scandal? After all, it takes at least two hands to clap, and the consumers also have a part to play. And what are the negative impacts caused by such conflicts of interests within the financial planning industry? More importantly, what are the possible solutions?

Viewing the Conflicts of Interests Issue and their ROOT CAUSES from the Grassroots level:

In order to truly resolve the issue of conflicts of interests in financial advice, one has to first identify and understand the root causes of the problem. To do so, one has to see and hear beyond the information clutter and noise, and know what is really happening at the 'grassroots' level.

Based on our analysis from our observations and varied experiences in the financial services industry, we've come up with the below scenario, (one that is sadly all too common) to aid the understanding of the ***root causes*** of the conflicts of interests issue and the problems resulting from those conflicts of interests, in a simple nutshell.

Let's look at what truly goes on at the ''grass-roots level', something that most regulators and the executive managements of financial institutions do not get to see or hear about, with this scenario:

There is a couple (husband and wife) who are relatively settled, career wise and financially; they have some spare cash, money they are looking to invest for their future, to "make their money work harder" for them as their peers advised. They are aware of a few choices available to them -- investing in property, or shares, or their superannuation, or a combination of those options. They approached their bank, whose staff directs them to the financial planning team. As advised, they seek out the bank's financial planner for financial advice, believing and trusting that the financial planner would be able to advise them on which is the best way to go, what type of investments they should make based on their risk appetite and financial and personal circumstances, and how to go about it.

Now, let's pretend that *you* are the financial planner, currently employed by bank XYZ, whom this couple consulted with for advice, and these are what's on your plate.

As a financial planner, you would love to be that 'holistic' financial adviser that your clients believe and trust you to be. But you have to be realistic. Whether you get to keep **your job and the income** that job pays you to support your family depends on you meeting your Key Performance Indicators (KPIs) that your employer, Bank XYZ, has set for you. And your KPIs, and extra commissions and bonuses on top of your base salary, are all tied to the sales of 2 types of financial products - life insurance products and managed funds within the superannuation environment. In reality, you are only trained in the use of life insurance and managed funds products and superannuation, and to provide advice around those products. You've heard how profitable it can be to invest in property but you haven't really learnt how to do so, nor are you an expert in picking the winning stocks. The CFP course did not cover those areas. Besides, the laws do not allow you to provide advice on those other instruments either, unless and until you have the appropriate training. Given the increasing complexity of all these various financial products and the environments they operate in and on-going education required, you have no time or energy to learn in depth about property investing or property-related financing or stocks. But hey, your clients don't understand or know that. Most general consumers aren't aware of that. Even most other employees within the bank you work in and who are not in the financial planning department, aren't aware of that either. That's why any of the bank's clients who walk in or call up with a query that can be generally classed as 'financial advice' are sent to you and the other financial planners in your team. Since that really plays to your benefit and your team's benefits, who will be highlighting that to upper management?

Now, the above client couple comes to you with the belief, understanding, and trust, that you, the financial planner, can advise them on whether they should invest further into their superannuation, or invest in property, or shares. So how should, and how will, you advise them and direct the flow of their money? Will you really be able to look at all their investing options 'objectively', even if you desire to? Will you advise and direct them to invest in the products that your KPIs, your job, your livelihood, requires you to, especially if your manager is breathing down your neck on your sales quotas and new business deals you've yet to bring in? Or will you advise the clients to invest their money elsewhere, such as in property or shares, when you are never going to be getting any financial rewards from, even if that may be the better option for them? Will you sacrifice your job, your livelihood and your means to feed your family, for customers you barely know, to advance their financial interests at your own (and your family's) expense? Besides, it can be argued that, as long as you don't commit fraud or forgery, legally you aren't doing anything wrong, just 'helping' and directing clients to invest where you think they should invest – albeit the products you are paid to recommend to clients. And it's not your fault really that you are making such biased recommendations under the image and cloak of being able to provide holistic financial advice, is it? After all, that's just how the financial planning industry is. If you don't do it, some other financial planner will.

These are pretty much some of the type of 'choices' that a typical financial planner has to make on a daily basis. If you were a financial planner, what would your choices be?

And that is pretty much the conflicts of interests issue that FOFA reforms seek to address in a very simple nutshell.

Root Causes of the conflicts of interests issue two-fold

The root causes of the conflicts or interests issue and why it can and has persisted for the length of time it has, are two-fold. Besides conflicted remuneration structures, there is ***a disparity in consumer understanding and perception of what the term 'financial planning' is or constitutes, versus the financial planning industry reality and practices***.

It is not merely a case of low levels of financial literacy, but more so, the inaccurate understanding and perception that general retail consumers have about what financial planners do and advise on. To most retail consumers (even banks' frontline staff who have not had exposure to the financial planning sector), 'financial planning' means quite literally 'planning your finances, using all the financial instruments available to them, including cash, property, finance instruments, shares, life insurance, managed funds and superannuation'. More critically, they believe and trust that financial planners in general provide that type of 'holistic' financial advice. The big banks' vertical integration efforts and the wide range of financial products the banks now offer has helped to further fuel this inaccurate consumer perception.

In reality, financial planning industry and financial planners are inextricably tied and limited to provision of advice on only **two** classes of financial instruments – life insurance products and managed funds products, especially within the superannuation environment. Even most financial planners who possess the 'Certified Financial Planner' (CFP) qualification and designation are not trained in, and do not provide other financial advice associated with other financial instruments, such as tax and accounting, mortgage broking and property purchase or investment, and share trading. CFPs are essentially specialists in life insurance, superannuation and managed funds sector. They are also therefore not the 'holistic' comprehensive financial advice providers that general consumers tend to think they are. (There are, in the financial services industry, independent certified financial planners who have acquired other qualifications to provide more holistic comprehensive advice but these are few and far in between, and they do understandably and deservedly charge higher fees, which most consumers can't or won't pay for, especially when they think they can get it as a 'free service' from their banks or other boutique practices.)

This disparity in consumer understanding and trust versus reality is open to, and had sadly been abused on various occasions, such as in the Commonwealth Financial Planning (CFPL) scandal.

<u>Negative Impacts of Conflicted Advice to retail consumers and financial institutions</u>

Impact on general consumers:

Besides loss of money, inability to fund their retirement, and personal and family distress, there are also ill will and loss of trust and loyalty towards the financial institutions, especially towards those who were employers of the rogue advisers. Overall consumer confidence in the Australian financial system is also undermined.

Impacts – visible and 'invisible' – on banks, and other financial institutions like credit unions and building societies (CUBS), with financial planning arms.

Customer complaints, lawsuits and heavy restitutions, bad press and loss of customers, as well as resulting loss of revenue and market share – those are just some of the 'visible' negative impacts, as displayed by the CFPL case.

However, ***there is an impact that's gone largely unnoticed, an internal counteractive force*** causing internal conflicts of interests, and resulting in further losses of revenue, opportunities, and market share, ***within the financial intermediaries, such as banks and CUBS***.

Now, let's say you are one of the banks' directors / executive managers who are working hard to gain a greater share of customer wallet for your financial institution. To do so, you've identified new opportunities and target markets that are still largely untapped, such as the investment property loans market, low cost online share trading platform, and low cost online DIY superannuation platforms and online SMSFs, that clients can easily use with the advent of technology. You and your executive team have invested large amount of resources to invest in these areas to gain greater share of customer wallet, and market share, customer advocacy, and keep operational costs down and keep up with technology.

Your marketing campaigns are successful enough to generate customer enquiries in the areas of property investing, and share trading and DIY superannuation platforms. Unfortunately, both enquiring customers and the organizations' frontline staff (excluding the financial planning team) perceive property investing, share trading, and super to fall under 'financial advice', and the enquiring customers are thus usually referred to financial planners. What usually happens next is that most financial planners would be engaging these enquiring retail clients in a discussion on 'investing in super and salary sacrificing versus property/shares' due to vested interests. If the enquiring clients are unsure of, or not focused on, what they want, they are swayed into investing further in their superannuation funds as recommended by the financial planners. Retail clients who know and are focused on what they are after merely walk away from the bank, annoyed and disgusted at the waste of their time and lack of adequate advice, and seek out another advice provider who can better cater to their needs.

Unaware of this, you, as the director/executive manager, have only looked at the results of your new initiatives, as reported to you by the relevant teams (excluding, of course, the financial planning team who now seems to be thriving). And the results are not as you expected or planned for. Given that you've already invested so much into these projects, and thinking it just takes more time for consumers to get around to your new ideas and projects, what would you and your team very likely do? Chances are, you and your team look for more 'effective' ways to market your new initiatives and pour even more resources into the projects, inadvertently and unintentionally feeding the invisible internal counteractive force even more.

Note on mutual banks and CUBS:
In the wake of FOFA reforms, there are some banks in the mutual banks and CUBS sector that have tied up with online superannuation platform providers in a bid to provide alternative low cost, 'no-advice-no-remuneration-payable-to-advisers' DIY superannuation funds to their members. Many of these mutual banks also have an existing financial planning department, who receives remuneration from sales of products from another superannuation platform provider due to 'legacy' arrangements. Again, enquiries by members about the mutual banks' new 'white-label', low cost, 'no-advice-no-remuneration-payable-to-advisers' online superannuation funds are generally referred to the financial planning division, who inevitably redirects clients' funds into the old platform from which their remuneration and KPIs are tied to, rather than to the new online platform from which they receive no remuneration and to which their KPIs are not tied to. Once again, members receive 'conflicted advice', in spite of best efforts from banks' management teams, as well as the financial institutions providing these online superannuation platforms, and the growth of these new low cost superannuation platforms are thus stymied as well.

The invisible counteractive force that has been generated by the financial planners' conflict of interests have resulted in internal departmental conflicts of interests (often 'invisible' to most of the upper management teams) which eventually stymie the new projects that the directors and executive teams have spent large amounts of resources develop. Unaware of the counteractive forces at play within their very own organizations and the invisible organizational gridlock those counteractive forces caused, more efforts and resources are poured into finding more 'effective' ways of driving the marketing and promotional initiatives for the new target markets and new platforms, inadvertently 'feeding' the counteractive forces even more.

Current Proposed FOFA solutions and amendments, and issues with those solutions:

1. Banning of commissions and bonuses.

   Problem with this proposed solution:

   When the entire KPIs of the financial planners especially those employed by the banks are tied to the advice and sales of two types of financial products only, while being generally perceived as or expected by consumers of being 'holistic' financial planners, how effective will the banning of commissions and bonuses be? If one is to remove such conflicts of interests, one has to remove all the financial planners' KPIs (banks and independents alike) from those 2 classes of products they are all currently tied to. This solution is not practical, as financial products -- life insurance and superannuation products -- have to be sold and distributed in order for the financial systems, businesses and markets to continue, and their sales force have to be paid and motivated one way or other.

   Furthermore, with the ban of commissions and bonuses from product providers, the costs of distributing the two financial products that financial planners distribute have merely been passed on to general retail consumers. Technically, now, retail clients have to pay upfront fees and charges to be sold conflicted advice; now, retail clients have to pay for financial planners to sell them these two financial products, which most consumers are not really interested in. That will only likely serve to increase the levels of underinsurance in Australia, and result in further consumer disengagement with their superannuation funds and retirement outcomes.

2. A far more vigorous framework for qualifying and regulating advisers, raising minimum standards for planners giving out personal advice and introducing national examination for financial advisers, as well as introducing a new public register of financial advisers that allows consumers access to information about credentials.

   Problems with this proposed solution:

   a. Higher qualifications do not unfortunately equate to greater ethics, character, and a heart for general consumers; it does not necessarily translate to financial advisers acting in the best interest of their clients and prioritize their client's interests ahead of their own, or prevent conflicts of interests and dishonest conduct on part of advisers. For rogue advisers, higher education may very well help them more easily 'get around' the system, which is inherently flawed. And more likely than not, the higher educational qualifications may serve to reinforce general consumers' incorrect understanding of 'financial planning' and compound the problems rather than solve it.

   b. Higher education such as the Certified Financial Planner (CFP) course and qualification currently focuses on wealth management advice predominantly around life insurance and managed funds products, and the superannuation platform, as well as aged care and wealth distribution, and do not produce 'holistic' financial advisers. To be able to provide true holistic financial advice, the further education required must encompasses all the various financial instruments that general consumers use, so that the advisers be more 'holistic' in their approach. However, the various other financial instruments (financing options, property, shares, CFDs, to but name a few) and the environments they operate in (be it legal, tax, markets, etc.) have become very complex, and due to time and financial constraints, there are very few financial planners who can and will invest in the acquisition of all that knowledge and expertise.

And for those few financial planners who can and will, the costs involved for acquiring all the relevant education and experience to be able to provide ‘holistic financial advice’ will be passed onto consumers by way of higher fees and charges, making advice unaffordable for most general consumers, especially when commissions to financial planners by product providers are banned.

The FSI interim report noted, “There is a consumer demand for lower-cost scaled advice”. Such ‘lower-cost scaled advice’ already exists; **the *real* problem lies in consumers often misunderstanding those providing such ‘lower-cost scaled advice’ to be ‘holistic’ advice providers, and taking their conflicted advice as the ‘gospel truth’, much to their detriment.**

3. Greater disclosure framework on advice given with heavier penalties for non-compliance.

Problem with this proposed solution:

Such mandatory disclosure measures are already in place. As the financial system inquiry interim report noted, the current disclosure regime has resulted in “an industry culture of legal compliance, rather than a focus on how best to inform consumers. This has resulted in lengthy and complex documents, rather than short, targeted documents that highlight product features, risks, and rewards.” And “the current disclosure-based framework has failed to adequately safeguard consumer interests while imposing significant costs on industry.” Furthermore, savvy rogue financial advisers have also learnt how to get around these compliance measures.

Clarity Advisory’s Proposed 4-Steps ‘Win-Win’ Solution:

To resolve the issue of conflicted advice and remuneration, one needs to fix the problem at the root causes. We took inspiration from the medical industry’s ‘GP-Specialist-Chemist’ approach, and formulated our proposed 4-steps solution, to structure ‘win-win-win’ outcomes for the various stakeholders involved.

We believe our proposed solution will help to:

1. Clear up the disparity in consumer understanding about financial planning versus reality of the type of advice the financial planning industry currently provides; and increase transparency and “close the knowledge gap between buyer and seller”;
2. Enable financial institutions, especially those vertically integrated, to provide better financial education to their clients, and also better facilitate access to appropriate and relevant financial advice and products for (and therefore distribution to) their retail clients, while remaining profitable; and without disruptions to their existing core business operations;
3. Empower retail clients to make more informed financial choices and decisions that better meet their financial circumstances, needs, and objectives; increase overall consumer engagement and levels of financial literacy among general consumers;
4. Increase overall quality of financial advice for retail clients; while making it affordable and accessible,
5. Limit the detrimental effects of financial advice due to conflicts of interests within the financial services industry.
6. Spur competition among financial product providers and motivate them to create more ‘win-win’ products to meet consumers’ changing needs; and also

7. Create greater opportunities for using technology to deliver advice services
8. Reduce compliance and regulatory costs.

We believe our proposed solution will help to meet "the challenge of the Inquiry", "to develop a viable alternative approach that is not simply more detailed rules", and that will help to "balance individual interests and the public good"; while creating opportunities for greater profitability and operational and costs efficiencies for the various financial institutions. We believe our proposed solution will, to a degree (at least internally from within Australia), help add to Australia's efforts to strengthen and sustain greater levels of consumer trust and confidence in the Australian financial system.

Our proposed 4-steps 'win-win' solution:
1. Rename, 2. Divide, 3. Empower, 4. Conquer.

Step 1. Rename:

Rename the financial planners/advisers to more accurately reflect the type of advice they provide.

Clarify and clear up by the disparity and confusion in the general consumer's perception and understanding of what financial planners do and type of advice they provide by renaming the financial planners to 'life insurance specialists' or 'superannuation specialists' or both, depending on the financial planners' experience, qualifications, and preferences.

Restrict the use of the terms 'financial planner' to only those financial advisers who are truly qualified, capable and willing to plan for and provide true 'holistic' advice around the various financial instruments (at least on the 'everyday' type of financial instruments available to all retail clients, such as cash to property, loans, shares, life insurance and managed funds and superannuation, and tax).

Benefit to general consumers:
With the renaming, in spite of low financial literacy levels, the general consumers will know without a doubt that the financial advisers they consult with are limited to providing advice on the various specific classes of financial products only. Renaming the entire body of existing financial planners to better reflect the type of specialist advice they provide will assist in preventing rogue advisers from taking advantage of consumers in the manner that some unfortunately had.

Benefit to current body of financial planners and financial planning industry:
The spate of scandals involving financial planners, such as the high profile CFPL scandal, has generated a lot of consumer mistrust and ill will towards financial planners in general. The overall image of the current financial planning industry and financial planners are now in tatters. There are those financial advisers who do their best to act in the best interests of their clients but whose reputations are also affected and marred by the unethical dishonest actions of the few rogues in the industry.

There is a need and desire for a distinction between the professionals who have taken the steps and investments required to acquire the specialist knowledge and experience and who will act in the best interests of clients, as compared to those who have not. Renaming the financial planners, especially those who currently possess the 'Certified Financial Planner' accreditation (but who are essentially specialists in provision of financial advice around life insurance and managed funds and superannuation products only), will give them the demarcation and public acknowledgement they desire and rightly deserve. Those who are truly holistic and possess all the necessary relevant qualifications and experience can be called 'financial planners' if they so choose. And they can receive the recognition and reward from the public and employers alike that they do deserve.

Benefit to regulators:
Renaming has also the benefit of ***separating the financial planners / advisers who work only in the life insurance, managed funds, and superannuation space from the 'holistic financial advisor' image they currently are accorded by general consumers and retail clients***. ***Conflicts of interests can then be limited***, and general consumers protected to some degree, even in the worst-case scenario where commissions and bonuses by product providers are not banned or are reintroduced in some other opaque ways, such as 'dealer-facilitation fees' and 'management fees'.

The gap in the financial system and the 'room to move' now appears.

With the renaming above-mentioned to better reflect the current body of financial planners and their skill sets and corresponding roles, people and things are better re-aligned to their right places in the financial system. One can better see the gap in the financial system, a gap that now gives regulators and financial institutions some 'room to move', and the ability to fine-tune the regulatory as well as business structures as required, without causing major disturbances to the overall financial systems.

Currently, what we have in the financial services and advisory industry are predominantly 'specialists' in the various classes of financial instruments. There are very few financial advisers or organizations that are able to provide a combination of holistic general and specialist advice which general consumers / retail clients require. Those who are able to provide that level of holistic and specialist advice do understandably and deservedly command a higher premium, given the amount of time and financial resources they have invested to acquire the various qualifications, expertise, and experience they possess. But ***how many of the general consumers (especially those who most need it) can afford and are willing to pay for comprehensive advice*** and the corresponding higher fees that these well-qualified and experienced financial advisers charge, especially when the commissions and bonuses that product providers gave, and that had acted as a 'subsidy' to general consumers, are removed?

What is required - this gap - is that of the ***provision of general yet holistic financial advice*** (as opposed to "lower-cost scaled advice" and holistic specialist advice).

<u>**Steps 2 & 3. Divide & Empower:**</u>

The solution lies in the two main segments that financial advice can be divided into.

Financial advice can be divided 2 major segments:
(1) ***General financial concepts and strategies*** (such as the *'Four Pillars of Financial Planning' concept, and the corresponding financial strategies under each pillar*) and
(2) ***Technical/specialist expertise and knowledge*** of financial products and environments they operate in

Unlike specialist knowledge and technical expertise of financial products and the environments they operate in, ***financial concepts and strategies can be relatively more easily <u>simplified, organized, systemized, and taught</u>***, both to staff within the financial institutions and general consumers alike.

What is needed in the financial services industry is the ***creation of a new group of professionals who are trained in***:
1. ***General yet holistic financial concepts and strategies***, (which encompass the use of main types of everyday financial products that general consumers can easily access and afford), and able to share with and teach that to retail clients, and

2. ***Project coordination***, to assist their clients to liaise and coordinate with the various technical financial specialists as required (clients can always choose to liaise directly with their own preferred specialists if they prefer).

(This new group of professionals can be called 'personal financial strategists/guides' or 'financial services guides /coordinators' or 'personal financial assistants'. **For ease of discussion, in this paper, we will call them '*personal financial assistants*'**.)

Risk management and governance by empowerment of retail clients rather than just more compliance measures:

The roles of these 'personal financial assistants' are not so much to provide specific financial advice per se to retail clients; rather, the 'personal financial assistants' are to ***guide and empower the retail clients*** to develop and customize appropriate financial strategies for themselves, to work with the clients to identify which category of financial instruments are most suitable to clients, based on the clients' own personal situations, needs, risk profiles, and their financial objectives, and available financial resources.

After the 'personal financial assistants' have done the above and assisted in identifying the financial resources that should be allocated to the investment of the identified category of financial instruments, they are to then help refer the retail clients on to the appropriate relevant financial and product specialists. The relevant financial products specialists will then provide advice on specific financial products and legal advice pertaining to the use of those products and relevant platforms, and assist with the implementation of the chosen investment products. If clients prefer, these 'personal financial assistants' can take on the project coordination role on behalf of clients to liaise with the specialists. Otherwise, the retail clients can liaise with the specialists themselves. [Metaphorically, the 'personal financial assistants' would be akin to personal assistants / project managers to the 'CEOs' that the retail clients are (after all, the retail clients are the 'pay-masters' and ultimately responsible for their own financial futures), to assist them in navigating the way forward, to build their private little financial ventures.]

The KPIs and remuneration of this newly created group of professionals are not to be tied to the sales of any specific financial products. As this is a newly created group, that can be easily arranged, (as opposed to removing existing commissions and bonus arrangements from existing groups of product providers, distribution channels, and tied advisers.) Within the banks, this group of professionals can be assessed more on a balanced scorecard, on ***all*** financial products the banks carry, and also the customer relationships they gain, build, and retain for the banks they are employed with.

Choice of upfront fees or commissions payable:

For the various financial specialists, to make the advice affordable to general retail clients who can't or won't pay for the specialist advice required, ***clients can be given the choice of either directly paying upfront fees and charges to their specialist advisers using their own cash or having their specialist advisers paid via commissions and bonuses from product providers*** that these specialist advisers are tied to, ***on the condition that full disclosure on the amount of payable commissions are required*** on the part of the specialists advisers. The commissions payable thus act as 'subsidies' granted to clients who can't afford to pay, by product providers.

Benefit of our proposed solution to retail clients and general consumers:

This new group of 'personal financial assistants' (if they are well trained) are essentially guiding, empowering, and mentoring their clients as to how to use financial strategies for their own benefit.

The simplicity of the overall financial concepts can help general consumers get more interested and more engaged with their own financial future, and raise overall financial literacy levels.

Furthermore, the 'personal financial assistants' act as impartial 'gatekeepers' to the various financial specialists advisers, and can help, to some degree, to prevent clients from getting conflicted advice. They are like the 'general practitioners' in the medical industry, most retail clients' first point of contact, and who bridge the gap between the retail clients and banks and the various financial specialists teams within the banks, as well as independent financial specialist practices.

Benefit of our proposed solution to financial intermediaries like banks and CUBS:

Consulting firm EY, in its *'Winning through customer experience' Global Consumer Banking Survey*, states that customers "are willing to increase their accounts and balances in exchange for banks helping them develop their financial plans and goals – demonstrating the power of personalizing the experience and creating a mutual exchange of value. Thus, banks need to ***provide advice that is customer-centric, based on a holistic perspective of the customer's unique situation and needs***." And PwC in its Major Banks Analysis May 2014 report 'Banking on Change' advises that, to get ahead of the game, "Banks must create meaningful 'wow' experiences that exceed the expectations of customers by being bold, innovative, and agile. Achieving this requires banks to take the final step of ***co-creating personalized experiences with their customers***." The question everyone is asking but have yet to come up with any satisfactory answer thus far is: "How? How can we do that with the current systems we have to work with, without a major overhaul of the existing machinery and creating huge disruptions to business operations, which will affect business and profits one way or other?"

Our proposed solution can be incorporated into the banks' existing operations without causing major disruptions or disturbances, and **assuming our proposed strategy and solution is implemented correctly within the organization and the staff properly trained,** this new group of professionals (the 'personal financial assistants') can do just that - provide that 'personalized' 'wow' experience to clients that will inevitably lead to improved image, increased customer goodwill, engagement, loyalty, and advocacy, and gain a greater share of wallet, as well as word of mouth referrals, which can translate to greater market share. The personal financial assistants will also be in the position to assist in financial product research and development that will be profitable for both clients and product providers.

In addition, the 'personal financial assistants' can ensure that the banks' clients are directed correctly to the right departments within the financial organizations, hence removing the counteractive force within, as mentioned earlier in this paper. Potential complaints and restitutions, at least due to conflicts of interests, are also likely to be reduced.

As the 'personal financial assistants' are assisting the retail clients to develop customized financial strategies and identifying financial instruments that work best for them, rather than giving financial advice on products per se, and the onus of implementing the strategies is on the retail clients, related compliance costs can be minimized, **depending on the structures adopted** by banks and other financial institutions.

Benefit of our proposed solution to the Government:

With the introduction of this new 'personal financial assistant' role, **new jobs will be created**, and existing talented staff within banks who do not have the aptitude nor desire to become specialists in their financial sectors can be retrained and redeployed to this type of 'personal financial assistant' role, thereby saving jobs, as opposed to redundancies and job losses.

Step 4. Conquer:

Rather than one government body spreading itself thin trying to ensure compliance on all the various financial sectors, the relevant governing bodies and associations of the various financial specialists will look after regulatory compliance and best practices in their own specific financial sector, as is currently happening. These existing specialist specific governing bodies are doing a great job; all that's required is giving them more power to enforce the compliance measures, create public registers (and blacklists) of the specialists under their jurisdiction, and mete out disciplinary measures as and when required.

And that is our **4-steps – Rename, Divide and Empower, and Conquer – proposed 'win-win' solution to FOFA reforms**.

About Clarity Advisory and Training Solutions PL

At Clarity, we believe in and are committed to building a better, more prosperous, and supportive environment, where ***everyone*** in that environment can flourish.

We envision and work towards a world where

1. Financial intermediaries and financial products and services providers are ***equipped*** to provide fair, balanced beneficial advice for general consumers while still being profitable (a 'win-win' outcome for all involved).
2. The masses, the general consumers, are ***empowered*** with basic levels of financial literacy, so that they may plan for themselves and use common 'everyday' financial products to their benefit; and that they may defend themselves against unscrupulous unethical sales people masquerading as 'impartial' financial advisors.

To those ends, we are able and willing to assist the Government and the FSI committee to

1. Train this new group of professionals, the 'personal financial assistants', and
2. Assist banks and financial institutions to analyze, fine-tune, and re-align their business machineries to incorporate and implement this solution, without causing disruptions to existing business strategies and operations currently in place, so business can continue as usual;
3. Customize the training package to fit the individual financial institution's overall business strategy and existing systems and products.
4. Assist banks and financial institutions to identify existing staff that can be re-deployed to this new role, and/or recruit new staff suitable for the role, and train them accordingly;
5. Assist banks and financial institutions to create the balanced scorecards and tracking systems and train the relevant managers on the implementation and tracking of those systems.

For more information on our proposed 'win-win' solutions, please email us at:
enquiries@clarityadvisory.com.au, or call Rachelle at 0400 881 848.