



Expert Feed

Achieving portfolio excellence in post-Hayne

BY **TONY NEJASMIC** | FRIDAY, 3 MAY 2019 @ 2:13PM



Of all the revelations that the Hayne Royal Commission highlighted earlier this year, it was the issue of institutions charging a customer a fee for no service that perhaps typified why the finance industry has failed to meet basic community expectations.

The ensuing 76-point recommendations from Hayne picked up heavily on the themes of conflicted remuneration, culture and governance, while also hinting that the regulators must now be seen to act to enforce harsher penalties on non-compliance.

It is highly likely that the issue of fee-for-no-service is squarely in the sights of the corporate regulator with APRA and ASIC recently announcing that Trustees of superannuation funds are to have greater oversight of adviser fees deducted from Superannuation funds based on the sole purpose test.

In the aftermath of the Hayne Royal Commission, the financial industry is now taking steps to address a raft of issues. For financial advisers seeking to do the right thing by their clients, this environment creates - perhaps counterintuitively - an opportunity.

Welcome to the age of governance, where the best interest test will become a dominant measure of the financial advice sector activities. Satisfy or exceed the governance, compliance, best interest and sole purpose obligations, and advisers are well on their way to future-proofing their business and safely building the wealth of clients.

Tools to enable excellence

A key question here is: what are the available tools that can help advisers and other intermediaries attain higher compliance standards, boost the transparency and efficiency of their advice and, by extension, their investment product recommendations?

I contest that optimal portfolio administration supporting a world of investments is one of those available tools.

While all investment businesses are different, they share a common objective of building investors' wealth through individualised solutions that meet the clients' individual circumstances particularly those in pre and post retirement. Not having that wealth eroded through excessive fees or taxes is crucial. Part of achieving this common purpose is being able to offer investors greater choice in terms of assets offered but also flexible ownership structures and investment models.

Flexibility, choice and online investment platforms will help to open the financial advice industry to greater scrutiny and avoid such outcomes. For too long, the workings of financial advisers and investment managers had a complexity and air of mystery, whether through opaque ownership or commission structures or through poor investment advice models.

A more sophisticated marketplace exists today. Investors (and regulators) are seeking more information, greater flexibility and investment choices from a world of investments- and of course proof of compliance.

Changing investment needs

Investors are looking offshore to seek greater diversification and returns, so offering international investment products is a basic need. So too is offering managed account solutions, ETFs, individual international securities and other investment products and structures that are gaining in popularity in the pursuit of lower fees and better returns.

Regulators are scrutinising how financial advice is delivered and who is delivering that advice. Advisers need to be better educated and act ethically and transparently. Greater industry regulation will help to achieve this.

Offering online wraps will be part of the solution of offering quality advice and better financial outcomes. A wrap allows investors to combine their investment portfolio of shares, cash, ETFs, international securities, managed funds and insurance into one easy-to-manage online account. Fees and taxes are unbundled and disclosed separately for all to see.

Wraps are flexible and provide a centralised reporting system that can be used by both financial advisers and investors as an easy way to manage portfolios. Wraps also keep investment managers more accountable to their clients as information is shared rather than kept hidden or not disclosed.

As more investment managers, superannuation funds and portfolio administrators launch wrap platforms, transparency will be elevated, and Australians will benefit. Investors can check their investments online at any time and access a wide range of wholesale funds that they might not be able to access individually. Investors too can pick and choose their investments and get the information they need 24/7 to make investment decisions. This will give a big boost to efficacy and transparency in the retirement savings sector.

Managed accounts too will thrive given their efficiencies for high net worth investors. Using optimal online portfolio administration, professional investment managers can help investors make optimal investment decisions, considering all their needs and circumstances. Managed accounts provide the ability to consider capital gain and loss positions, incorporating tax implications in investment decisions and the investor's overall portfolio position. A high degree of investor customisation in a fee-based product managed account product will help to deliver quality advice for investors.

So, as the financial services industry becomes more complex, offering advisers the opportunity to purpose-build online solutions that best suit their clients will be key to developing a robust financial advice model. That solution will be backed by access to a diversity of asset classes, transparent fees and competitive structures and an integrated platform solution.

While the Hayne Royal Commission was a sharp wake-up call to financial sector participants, many are meeting the challenge of delivering optimal portfolio administration excellence in the pursuit of providing quality advice for all Australians.

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