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## WHAT THEY DON'T TELL YOU ABOUT GETTING YOUR OWN AFSL

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You're running a successful financial planning firm and everyone you meet says "why not get your own license"? Do it your way! It sounds enticing. You are the master of your own destiny. You can do what you want, use any product and strategy and invest your clients in what you want without limitation. Keep all the revenue. Have greater control. All this while, if you're the responsible manager, trusting those giving advice under your license to do the right thing because if not, ASIC talks to you. You can manage that risk.

There are any number of providers that will, for a modest fee, assist you in obtaining your license and provide you with all the templates and infrastructure, for you to run your AFSL your way. You just need to spend a bit of time setting it up, pay your professional indemnity insurance, join FOS and then you won't have to do much again after that!

All of this can and does work well for some. However, the reality is that the fees to properly maintain a license, once you take your time into account, are probably no more or less than what a good licensee would charge a firm of your size. Indeed, Professional Indemnity insurance for new financial planning licensees has risen to about \$18,000 p.a. a significant increase according to brokers in this space.

Recently Insight and some of our advisers have been looking to purchase advice businesses'. We have come to realise that what people are not told about having their license is , how the end game, will affect them.

Potential buyers won't purchase an AFSL. The AFSL holds all the risk and is responsible for any past poor advice the buyer won't want to take on this risk. Instead they will purchase the client base at commercial terms. Sound good?

As the owner and responsible manager of the AFSL your liability for the advice will last for 7 years after you have sold the business. You need to get run-off professional indemnity cover to offset the risk.

Getting run off cover can be an issue. In most cases the cover is likely to only last 12 months and you will need to renew each year. It gets worse, if you have a claim you may not get renewed and be left with the liability for the remaining years.

Finally, it's not cheap and it does not get that much cheaper over the 7 years even though the chances of a claim are diminishing.

Where does this leave you? The value of your retirement dollar from the sale of the business is now being eaten up each year by the cost of the run off cover. You're still at risk that a claim can happen and heaven forbid if you get more than one claim you are now running the risk of not being covered and are putting your life's savings and retirement at risk.

Think about the end before you decide to get your own AFSL, it may cost you more in the long run and not be as enticing as you may think.

Paul Kelly

A handwritten signature in black ink that reads "Paul Kelly".

Director

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