

Logical's take on the Royal Commission - Part 1



Steve Blaker

Certified Financial Planner and
Director of Logical Financial
Management

The revelations pouring out of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Service Industry (the Commission) are deeply unsettling, quite disturbing and trust shattering for bank customers.

Could this be symptomatic of our society in general and another nail in the scandal ridden coffin where we have lost faith and trust in our institutions, including Governments, Schools and Universities, Politicians, Advisers, the Church, the Family and even sporting teams such as the Australian Cricket and Rugby League teams?

The Commission has become gripping viewing for many. The commercial TV channels should bid for the broadcasting rights over winter. It has everything: the forensic analysis and youthful confidence of bright QCs assisting the grumpy Commissioner Hayne; the hapless and bewildered bank executive witnesses thrown under a bus by their superiors; and a script worthy of John le Carre (for those who have read the spy thrillers) with lies, deceit and incompetence.

Sadly, for those professional financial planners (whether independent/privately owned or not) who always act in their clients' best interest (such as our practice) will likely be tarred with the same brush as those who have behaved "dishonestly" "illegally", "fraudulently", "negligently", or "incompetently".

As most of our friends, clients and colleagues would know, for the last couple of decades we have been highly critical of the vertically integrated institutions that "sell" products and supposedly "advise" clients. These institutions may include but are not limited to the 4 banks, AMP and Macquarie. We have argued that these institutions would probably "control" c.70% of the licenced advice market and if we include IOOF, Suncorp etc. it could be up to c.85%. This leaves c.15% as operating under some form of a privately owned (can't use the term independent!) Australian Financial Services Licensee...which, we should add, is by no means a guarantee of good advice.

When the idea of a Banking Royal Commission was first proposed, we felt it could only be a good thing and should be widened to encompass financial services in general, including all superannuation providers. We also suggested that the regulators such as ASIC and the specific legislation & regulations governing financial advice should also be examined, because in our view, the repeated clumsy & egregious attempts by successive governments to address these issues by "patching up" existing rules clearly have not worked. In fact, it's become a farce. One of our proposals at the time was to dismantle the Australian Securities and Investments Commission and the relevant sections of the Corporations Law and regulations and start again. Back then, that was considered too radical. Given what the Commission is now uncovering, maybe it's an idea whose time has come. We wonder if there is a government who has the stomach for such an undertaking.

We were also disappointed that the Prime Minister and his government felt it was not necessary as all was on the improve, until eventually caving to public pressure.

Although opposition leader Bill Shorten is trying to bask in the glory of the Commission he agitated to establish and remains smug about what it has uncovered about the banks to date, we await with



James Cotis

Certified Financial Planner and
Director of Logical Financial
Management

interest when the Commission's focus is turned onto the union-based industry superannuation funds. It may well be just as shocking, and he may have to go to ground.

Anyway, we are now watching the Commission hearings and it is already proving to be a debacle for the institutional advice space. Systemic lying, cheating and cover ups, dodgy non-performing products, breathtaking fee gouging and stuffing their pockets full of money where no advice or service has been provided, rounded out with opaque answers to some fairly direct questioning by Commissioner Hayne and counsel assisting. The banks really have been laughing all the way...to the bank...for years!

So many lowlights:

- AMP giving 20 misleading statements to its regulator;
- The head of the financial advice business saying he had not "turned my mind" to thinking about adviser commissions;
- Charging financial advice fees but not meeting the client, with the Commission calling CBA the "Gold Medallist" in fee-for-no-service;
- An external "independent" board report for ASIC revised by AMP management through 25 drafts, including redacting the CEO's name;
- CBA's "hopeless" systems failing to identify adviser errors and not notifying the regulator of breaches for years;
- Fees charged on the estates of dead clients for a decade after their death;
- Failing to sack advisers who had clearly provided poor advice for years, and when they did, a failure to warn their next employer;
- An executive unable to identify what he was apologising for.

You couldn't make this stuff up if you tried, and what a setback for the vertical integration model (and potentially financial advice!)

Let's hope the Commission will drill deeply into the Financial Ombudsman Service, ASIC and the ACCC and their lack of teeth and courage in policing. The overhanging question remains, why hasn't ASIC done over the last decade what the royal commission has done in a few weeks?

One issue that doesn't seem to have come out is the practice of banks and wealth managers owning and controlling "independent sounding" advisers and brokers. Most consumers would be surprised to know that financial advice firms such as Hillross, Charter, Securitor, Magnitude, Millenium 3, Shadforths, Count, Financial Wisdom, are all owned and controlled by the banks, AMP or IOOF. They would also be surprised to know that Aussie Home Loans is owned and controlled by CBA.

ASIC has made a big deal at the Royal Commission about AMP controlled planners recommending lots of AMP products. But this misses the point. Consumers would expect AMP branded planners to recommend AMP products. Those consumers have made a conscious decision to deal with AMP. But consumers would also expect Hillross and Charter planners to be independent, rather than controlled by AMP. Consumers are potentially being deceived by these "independent sounding" brands.

If the Royal Commission doesn't recommend the complete eradication of vertical integration, let's hope they at least recommend an end to institutionally controlled advisers and brokers hiding behind independent sounding brands. And by the way, for vertical integration in financial advice to be truly eradicated they will need to also include Industry Super Funds with internal advisers.

And let's not kid ourselves, the banks have known for some time that there was a day of reckoning heading their way. They just put it off with lies and obfuscation...anything to keep the money rolling

in. Now, realising that day was upon them, the banks have been (& continue) to jettison their wealth management divisions.

So.....looking forward, the banks will now likely disappear from the financial planning business and when the Commission finally hands down its report as to the extent of what they have uncovered, the banks will be long gone, leaving a legacy of chaos, mess & madness behind them. The Government's reaction to the Commission's investigations will likely be ever more compliance, leaving those remaining financial planners (who did nothing wrong) to pick up the pieces. We'll all need to be ready for additional compliance burden....and cost.

As a professional financial planning practice, we at Logical know that the best interest duty to our clients is not just a sign on an office wall or loose talk bandied around...we also understand it's not just a legal obligation. For over 25 years, it has been the basis of everything we do for our clients. We are proud of the vital service we provide our clients, delivering goals-based outcomes which transform their lives.

Looking for Financial Advice?

In an ever increasingly complex financial and legislative world, our mission is to provide you with clear, concise and tailored strategic advice.

[Get in Touch](#)

t 02 9328 3322
f 02 9328 3323
e team@lfma.com.au
w www.logicalfinancial.com.au

Suite 21, Level 2, 8 Hill Street,
Surry Hills NSW 2010
PO Box 103
Darlinghurst NSW 1300

The logo for Logical financial management features a stylized white 'L' icon to the left of the word 'logical' in a bold, lowercase sans-serif font. Below 'logical' is the phrase 'financial management' in a smaller, lowercase sans-serif font.