



## Banks structured to deliver poor advice

John Addis

Published: May 26, 2014 - 1:15PM

Something odd occurred last week, something that almost never happens in business, let alone financial planning, a sector famously impervious to the needs of its customers.

An industry body - in this case the Financial Planning Association (FPA), representing over 6,000 planners – argued the case for more regulation.

As a recent World Bank study noted, many of Australia's major industries are dominated by a handful of companies. They prefer to be free from pesky regulation so they can carry with their over-charging ways.

This tendency is nowhere more in evidence than in the 'wealth management' arms of the major banks, which have run a relentless battle against the proposed Future of Financial of Advice reforms.

So why would the FPA, which is arguing for better educated planners, the separation of products from advice and an ASIC register, want more rather than less regulation?

Because it understands that without the public being able to trust those giving them advice, the industry is doomed. The banks, meanwhile, love the idea of tellers flogging us superannuation products whilst we're cashing cheques.

The FPA should be commended for its stance. Unfortunately, the proposed changes will only make the problem a little less dire.

The central issue is not legislation that attempts to mediate selling and advice but that these two roles are combined in the first place. It's a bit like eating tuna custard. Some things aren't meant to go together.

No one asks a drug company for medical advice because we understand that the vested interest is so great that any answer, even an honest one, can't be relied upon.

The recent Fairfax/4 Corners investigation into the behaviour of the Commonwealth Bank in its despicable treatment of sick and elderly clients makes this point.

The bank wanted to sell products; the adviser wanted the highest possible commission; and the customer wanted good advice (but was unable to tell good from bad, which was why they consulted an adviser in the first place). No prizes for guessing who won that little tussle.

The lobbying to repeal FoFA is all about preserving that culture at the expense of advice because it's impossible to do both well.

A visit to the planner at your local branch proves the point. Of the thousands of financial products on the market, from hundreds of different providers, you'll almost certainly be recommended products manufactured by the company that employs (or incentivises) the person doing the advising.

Happy coincidence? I don't think so.

What's the problem with that, say the banks. If you wander onto the forecourt of a Ford dealership you don't expect to drive away in a Holden. So why expect Commonwealth Bank to offer you anything but CBA products?

There's one key difference. The Ford rep isn't masquerading as an advisor. In financial planning, the planner knows he or she has to sell bank products but because it says 'adviser' on the business card, the customer thinks they're getting advice when in fact they're getting sold.

Economists call this information asymmetry, which is a technical way of saying the major banks are profiting from the ignorance of their customers.

And all that compliance stuff? It may not seem like it but that's there to protect the banks, not you. In court, or, for instance, before a Senate inquiry, the compliance 'process' allows the bank to claim it acted legally, even though it cost you your nest egg.

There's only one way to start to fix this problem and that's to break one of Australia's leading oligopolies and force the banks to divest their wealth management arms. That's unlikely to happen.

But until the conflict between sales and advice is removed, good bank planners - and there are many - will struggle in a culture they abhor. And those behaving like used car salesman will thrive, at the expense of their clients.

***John Addis is a Director of Intelligent Investor Share Advisor (AFSL 282288). To unlock all of Share Advisor's stock research and buy recommendations, take out a 15-day free membership.***

*This story was found at: <http://www.smh.com.au/business/intelligent-investor/banks-structured-to-deliver-poor-advice-20140526-38ye5.html>*