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The risks of letting banks sell super plans over the counter

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The high degree of ownership of financial planners by the big four banks means higher sales of in-house financial products to those seeking advice.

Financial institutions have the lion's share of the financial planning industry. Banks are hugely profitable, spend more on marketing and advertising than any other industry and exercise great influence over governments of whatever persuasion. They are developing their own media departments at a time when independent media is struggling, and the regulator, the Australian Securities and Investments Commission (ASIC), appears to be on the back foot when it comes to ensuring that consumers' interest is protected.

Most financial planners are now aligned with or employed by one of the big banks plus AMP. The sales culture of the Commonwealth Bank's financial planning arm has been exposed by Fairfax Media.

Superannuation is becoming one of the main battlegrounds for the wealth managers. It is the big banks that are behind the push to wind back the former Labor government's financial planning reforms. They want their tellers to sell an unlimited range of products, especially superannuation and life insurance, to customers. Tellers are currently limited to selling simple banking products.

There is good evidence that banks usually recommend their own products over others', regardless of investment merit. We know this from a series of shadow shops over the years by the ASIC. In March 2012, the corporate watchdog released its report on its shadow shop of planners giving retirement advice. It found that almost 40 per cent of the retirement advice was poor, almost 60 per cent was adequate and only 3 per cent was good quality. In one-quarter of the advice samples, inappropriate financial products were recommended.

The poor advice included examples of "switching or consolidating multiple superannuation funds into a more expensive in-house fund, without sufficient benefits".

Late last year, Roy Morgan Research showed that planners and accountants were switching fewer clients into industry super funds: a miserly 10 per cent, with most recommendations into the funds owned by the banks.

In separate surveys, such as the one released in 2011, the researcher showed that there was a high incidence of planners recommending their employers' products. Bank-employed and AMP-aligned planners were directing most of their clients' superannuation money into their employer-related super funds.

Then there was the AMP-aligned planner who recently spoke of the high level of "systemic bias" towards in-house product at institutional licensees, such as the banks and, presumably, AMP. In a submission to the Financial System Inquiry, he wrote: "The most pressing issue within the advice industry is the existence of bias within the advice process." While "these institutions purport to conduct research into the various financial products and services available" and "claim to give consideration to the available products across the entire market", there are biases to recommend the products associated with the institution.

The banks now want to be able to sell their super and insurance products over the counter, without even bothering to go through one of their financial advisers. The advice would be "general", and no account taken of the customers' circumstances. There would also be no restrictions on how the banks could reward their tellers for selling products.

Thankfully, after groups representing seniors and retirees protested about this and other changes, the Abbott government has put the plans on hold.

This story was found at: ***http://www.smh.com.au/money/super-and-funds/the-risks-of-letting-banks-sell-super-plans-over-the-counter-20140513-386cj.html***