

# More cracks in a rotten structure

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**A**nother day, another scandal. ANZ's bombshell that it misled clients by charging them for advice they didn't receive is appalling but not surprising. It is just the latest financial institution to become embroiled in the crisis of confidence engulfing the country's financial planning industry. For those who say it isn't systemic, how do they explain NAB, CBA, Macquarie and now ANZ, all of which have been found wanting in servicing some of their customers honestly and fairly?

ANZ's announcement it had short-changed thousands of clients came hours after the Australian Securities and Investments Commission gave an update on an investigation it began last October into the conduct of the big six financial institutions. The project was launched in response to a scathing senate inquiry that criticised ASIC and called for a royal commission into CBA's financial planning division.

ASIC's Thursday update confirmed it was "investigating multiple instances of licensees charging clients for financial advice ... where the advice was not provided."

ANZ is the first to go public, issuing a statement that it will pay 8500 customers who bought a bundled financial planning package,

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# Cracks in financial services foundations now apparent to all

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branded as Prime Access, about \$30 million in compensation.

ANZ launched Prime Access to 15,000 customers in 2003 as a fee-for-service package that included access to financial planners, investment monitoring alerts and an annual documented review of their financial situation. Thousands of clients placed their money with ANZ and received some of the services but not all and were charged regardless of whether the annual review happened.

ANZ head of wealth Joyce Phillips says since notifying ASIC of the breach last year, it has upgraded technology and “educated” its planners to better understand their obligations to customers. It has also boosted the number of people in supervision and compliance to better monitor its 1500 planners.

It is a good start but it puts the spotlight firmly on the conflicts of interest inherent in vertically integrated businesses, where the emphasis is more on product sales than financial advice.

CBA whistleblower Jeff Morris said charging fees and not delivering a service is rife. “You can trace the sense of entitlement back to the practice of collecting trail commissions without giving anything in return,” he says. “The cracks in the dam are opening up, however, and it is only a matter of time now before the whole rotten edifice comes crashing down.”

It also confirms the importance of preserving the future of financial advice (FOFA) reforms, including the opt-in requirements, which the Coalition tried to scrub out in an attempt to dilute the reforms.

This fell apart when Labor senator Sam Dastyari and independent senator Nick Xenophon helped stitch together a “coalition of common sense” to bring together Labor, the Greens and cross-benchers including Senators Jacqui Lambie, John Madigan and Ricky Muir to vote down the Coalition’s FOFA windback.

If ever there were an indication the Coalition was on a hiding to nothing, it was in late September when the peak lobby group that represents more than \$2.2 trillion in money, the Financial Services Council, put up the white flag and proposed the formation of an independent advisory body, funded by the industry, to rebuild the industry’s battered reputation.

The crisis in confidence springs from a series of exposes including allegations of forgery and fraud, advisers cheating on exams and excessive churning of insurance products. ANZ expands that to charging fees for no service.

“We have scratched away a few layers of paint and look at what rotteness we have exposed,” Greens Senator Peter Whish-Wilson says. “We need to find out whether the termite infestation within the big banks is localised or whether it has gotten into the foundations.”

Consumer group Choice issued a statement saying ANZ’s announcement was more damning evidence of fundamental flaws in Australia’s financial advice industry. “The customers ANZ failed will welcome this \$30 million fee refund but the industry at large needs to think about cleaning up the mess it has created by treating financial advice as a sales pipeline,” Choice chief executive Alan Kirkland said.

Next Tuesday at a Senate hearing, bosses of ANZ, CBA, NAB and Macquarie will be grilled over conduct in their wealth management divisions. For Jeff Morris and the whistleblower at NAB, the blowtorch needs to be put on the big institutions that have harvested their trusting customers.