What the Australian Government Royal Commission could mean for us here in New Zealand

The Australian Government has commissioned a royal enquiry into the banking, superannuation and financial services industry in Australia and the enquiry began its hearing process in March 2018.

The purpose of the Commission was to determine if there had been any misconduct in the financial services industry.

The Australian public were invited to make submissions.

As of 1 June 2018, they have received 6320 submissions, with by far the largest number being about banks (64%) followed by superannuation at 10%.

The Commissioner is to provide an interim report by the end of September 2018 and a final report in February 2019.

The hearings have been broadcast over the internet for interested viewers.

Lies to regulators

It has been BRUTAL and some of the findings have been JAW DROPPING.

The Commission has uncovered evidence of lying to regulators, not meeting basic legislative reporting requirements, and charging deceased clients for years after they have died.

Criminal proceedings possible

The chief executive of AMP stood down from his role after admitting that AMP lied to regulators and charged clients for up to a decade for advice which they had not provided.

The Chair of the AMP board, the AMP general legal counsel and three other board members also resigned.

It is possible that criminal proceedings will result from this admission of guilt and the share price of AMP has tumbled.

Failure to comply with anti-money laundering legislation

Commonwealth Bank of Australia (which owns ASB in NZ) has just offered to pay an AUD $700 million dollar fine plus legal costs of $2.5 million relating to its failure to comply with anti-money laundering reporting legislation.

They have also admitted to charging clients fees for services which they did not receive.

Bribery ring

National Australia Bank staff were involved in a bribery ring to benefit from an incentive to sign up new customers.

Cartel Criminal Case

ANZ, Deutsche Bank and CitiBank have been cited in a **cartel criminal case** relating to an AUD $2.3 billion dollar share issue of ANZ shares, which was not fully subscribed.

A couple of very large financial planning businesses (one with over 400 advisers) have also closed as a result of their client facing documentation being challenged by the enquiry.

Legally invalid transactions

The latest business to close had a "contracting out" agreement with clients so that the business could not be sued. This was found to be legally invalid, so the single licence holder has stepped down from holding the licence and the business will wind up in 30 days.

Vertical Integration

One of the big "buzz words" of the Royal Commission has been vertical integration.

This is where a financial organisation creates products and sets up an advice channel, where the advisers solely sell the products of the organisation.

It means that the organisation gets paid through all three channels (product/sales/advice) which is lucrative, and creates a huge conflict of interest for the organisation – especially when the customer believes that their interests were being put first.

Poor advice given

An internal ANZ audit in 2015 found that 1 in 20 ANZ clients were given poor advice by ANZ Financial Advisers.

ASIC reported that the 4 major banks and AMP had paid AUD $383 million to compensation to customers for poor advice in the last decade.

It is highly probable that the days of vertical integration in the Australian Banks and insurance companies are numbered.

What does this mean for us in New Zealand?

The reality is that our banking system, while regulated in NZ, is totally dominated by the 4 large Australian Banks.

ANZ and Westpac are in NZ trading under their Australian names.

BNZ is owned by National Australia Bank and ASB is owned by Commonwealth Bank of Australia.

AMP operates here as well.

I think that we would be foolish and naïve to believe that some of the behaviours that we see in Australia do not also occur here in New Zealand.

I believe that the changes which are going to be made in Australia (either voluntarily or legislatively) will also be applied here in New Zealand.

The banks will be keen to avoid a royal commission enquiry here in New Zealand, and I also believe that there is no appetite here for the cost of having one here in New Zealand.

Disassembly of vertical integration models taking place

We are seeing signs that the banks are already starting to disassemble their vertical integration models.

Here in New Zealand, ASB Bank has entered into the process of selling Sovereign, NZ’s largest life insurer, to AIA.

ANZ has also just announced that it is selling its life insurance business, One Path, to Cigna.

I would be really concerned if we saw the banks selling their KiwiSaver investment businesses.

According to the *Morningstar KiwiSaver* report for 31 March 2018, there is $46,511,000 in KiwiSaver.

Roughly 59% of this is held by the 4 major banks.

In my opinion, the banks have managed the KiwiSaver money reasonably well over the last 10 years, they have enrolled a lot of Kiwis into saving for their retirement, and do not have excessive management fees.

There are currently 12 other KiwiSaver fund providers available in the market, many of whom are more expensive than the banks, whose returns are variable and who take a lot more investment risk than the banks.

In my opinion, the banks provide a solid bedrock for KiwiSaver options and I would hate to lose this.

Loss of faith?

It is also possible that the one of the other consequences of this royal commission is going to be the loss of faith in the moral integrity of the banking sector.

Some of the consequences of this could be that people feel less comfortable about saving and investing in banks.

A study conducted in the USA by the National Association of Retirement Plan Participants in 2015 found that a lack of trust in the financial services industries has been linked to peoples’ lack of confidence in their own ability to make smart decisions about money.

This in itself could be significantly damaging to our economy.

To quote Clancy Yeates from the *Sydney Morning Herald*

> ***“Finance is basically about promises to pay one another; trusting others to manage your money; or to honour their word if you take out an insurance policy.”***

A lack of trust will erode financial stability and slow down an economy.

The next round of public hearings (Round 4) begins in Brisbane on 25 June and then moves to Darwin from July 2.

I fully expect the train wreck to continue.

Janet Natta is a financial adviser and director of Smart Money Advice, offering investment portfolio construction and management services to clients throughout NZ, as well as comprehensive financial planning advice to assist clients to build and protect wealth to achieve their dreams.