williamgrant FINANCIAL CONSULTANTS Insight

Royal Commission Wrap

For the past year, Australians have been transfixed by the shocking conduct of the Big 4 banks, AMP and other financial institutions exposed by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. On Monday, the Government released Commissioner Hayne's report, containing 76 recommendations for change. The Liberal government has pledged to enact all recommendations, with possible changes to mortgage broker recommendations, whilst Labor have advised they will enact all in full. As is always the case with politicians, what they say and what they do may not prove to be the same thing.

In this **william**grant Financial Consultants Insight, we will examine the main recommendations of the Royal Commission ("RC").

The Regulators

The finance sectors regulators, ASIC and APRA, received much criticism from the Commissioner for rarely ever prosecuting financial institutions for their misconduct and at times illegal activity, instead preferring mediation model. The recommendations compel the regulators to enforce laws and take organisations to court that break them. The RC also recommended the establishment of a new body to oversee the regulators.

The Verdict: Do we now need a new regulator to regulate the regulators? Perhaps some personnel and leadership changes at ASIC and APRA may have been sufficient, without the establishment of yet another government department.

Mortgage Brokers

Mortgage brokers are currently paid an upfront and ongoing commission by a bank for arranging your loan for you. This leads to the conflict of whose interests the mortgage broker is acting in. The RC recommends the banning of all upfront and ongoing commissions. Mortgage brokers will instead charge the client a fee for arranging the loan and laws will be introduced to require the broker to act in your best interests.

The Verdict: The death of mortgage broking? Would you pay a $3,000 fee for a broker to arrange your loan or would you just go to your local bank branch? Perversely, the Big 4 banks may be the winners from this. Currently mortgage brokers arrange 60% of all new loans in Australia. If people now revert to going to the bank directly, they will likely go to a branch of one of the Big 4. The banks will no longer have to pay mortgage brokers and will now make even more money.

Superannuation

Employees should have only one default super fund. Currently, under some industrial awards, your employer can require you to use a certain super fund. Over time, this leads to people having multiple funds that get eroded by fees and 'lost' when people can't recall what they have.

The Verdict: A move that should have occurred long ago. We're sceptical it will actually happen. Most default funds are union backed Industry Super funds that receive 'rivers of money' because of the existing arrangements. With Labor likely to be in power soon, unions will apply pressure to not enact this recommendation.

Insurance

Like mortgage brokers, life insurance advisers are currently paid an upfront and ongoing commission by an insurance company for arranging insurances for you. The recommendations of the RC are that this commission be wound down and banned over time. Insurance advisers will instead charge you a fee for arranging your insurances.

The Verdict: More thought and analysis are needed, as to whether this would actually result in a worse result for consumers. Unlike a loan, people don't view insurance as a 'need' to be acted upon. Australians are already chronically underinsured. Moving to a fee-paying model will likely result in fewer people taking out insurance or move to buying insurance online or through television advertising, much of which the RC found to be 'junk' or near worthless insurance.

Financial Advice

The banning of all 'grandfathered' commissions on old products (something Labor should have, but didn't, do in reforms from 2013). The move to ongoing fee arrangements to be renewed annually and the establishment of a new disciplinary body.

The Verdict: We're supportive of the recommendations but don't believe they went far enough. Many had expected the banning of an organisation providing financial advice and also owning financial products e.g. your AMP financial planner recommending AMP superannuation and investment products. The conflicts of interests that have caused many of the problems of the past may well continue.

We pride ourselves on being a 'family business', free from the conflicts of interest that affect so many financial institutions, and here to provide you with a personalised service. If you have family or friends who you feel may benefit from our approach or who would like to review their situation as a result of the RC, we would be happy to assist them. Please feel free to refer them to us and we will help them in any way we can.

David, Bill, Melanie, Cassandra & Cassie

We are here to help!

Should you have any queries or wish to discuss your affairs or the outlook for investment markets please don't hesitate to contact me on 6282 0170.