The case against franchising financial advice

Why this particular franchised model should be fried for good, based on a trip down memory lane to the local fish and chip shop.

On the face of it, it seems too many still believe an inappropriate model is right for financial advice. That model follows the 'two all-beef patties, lettuce, cheese – with the special sauce – on a sesame seed bun'. Of course, those in vertically integrated advisory firms, in particular, are proponents of this model). Alarmingly, this 'bancassurance' model persists, even after the Hayne Royal Commission.

Clearly, the practice of continuing to ignore the financial circumstances that are unique to each customer – combined with the complex interface of tax, superannuation and family law – makes this approach to financial planning a disaster, which has happened. No wonder the Big Four are in a bit of a financial pickle.

Banks sell a pretty simple product, that is, a margin on the official interest rate. This continues to deliver a river of gold for them. According to KPMG, profit achieved in 2018 was $29.5 billion, from a population of less than 25 million in Australia.

Late last century and early in this one, however, greed and hubris drew the banks into a frenzy of opportunism. They saw retail financial services as a simple subset of what they did, spending billions on the likes of Colonial Mutual, MLC, Legal & General (Aust) and Prudential (Aust). How wrong this would prove to be.

A simple analogy has the banks as McSomeone's hamburger outfit and the rest of the financial services industry as the 'corner fish and chip shop'. The former is a franchise, the latter a bespoke deliverer of advice and products to the needs of their specific market.

Some readers may possibly recall going down to their local fish and chip shop with their dad on Friday evenings (possibly in a dressing gown and pyjamas) to buy $7 worth of chips, the fish of the day dipped in batter, the scallops (potato or seafood, depending where you come from), or a hamburger with egg and beetroot. Maybe even a Chiko roll. One size did <u>not</u> fit all.

What banks did not seem to understand was that their corporatised financial franchise model was doomed because it lacked flexibility. The banks designed staff sales incentives that drove self-interest, assumedly in the mistaken belief that their frontline would always act in the best interests of their customers.

A family with adult children, a little cash and a few assets behind them is a much more complex consideration than someone seeking a home loan. For example, trying to 'up-sell' life insurance – "do you want fries with that?" – without bothering to understand the entire dynamic is fraught with danger and fundamentally only in the provider's interest (until it is ultimately not). Even more so is the practice of transferring a client from one perfectly appropriate retail superannuation product into a more expensive product badged by a bank-owned wealth division.

And those of us who recall the Friday night fish and chip run will also remember the local owners – let's call them Con and Effie – always remembered us. They asked about the other members of our families. They always threw in an extra potato cake or two (which dad always claimed). The bottom line being, they knew their customers.

Walk into a McSomeone's and you may very well find yourself greeted by a different teenager every week. A real relationship with a financial services provider should be cradle to grave.

In a perfect world, your parents introduce you to this adviser, and in turn, you should introduce your kids. The adviser should be part of the family 'support team' along with the accountant, the dentist, the lawyer and other major service providers.

Naturally, the individuals providing the services to you will change over time, but in a best-practice scenario, you and your family will continue to be recognised within the organisation.

A further issue with the 'bancassurance' model is the lack of competition. There is no incentive to cut the costs to client, just an incentive to 'clip their ticket' as often as possible.

To return to the fast food analogy, McSomeone's will negotiate with the beverages provider, add their margin, sell this to the franchise that then also 'clips the ticket' for the customer to ultimately pay a premium. The old 'chippie' owner, on the other hand, would watch closely for the cheapest price between Coles, Woolworths or IGA, then buy his soft drink so he could charge $2 a can and still make a reasonable margin for himself.

Divestment of the financial planning and investment divisions of the big banks is only a start. What we really need is to refocus the industry on smaller groups of individuals who have aligned values. Those who see a long-term relationship as far more beneficial than a quick sale.

It is my concern that once the ruckus of the Hayne Royal Commission has died away (in all likelihood, sadly, as the spotlight falls on the Royal Commission into Aged Care) then the shadowy practices of the past will begin to emerge again in financial services, as they have time and again after each previous review.

Perhaps the only way forward is to start prosecuting individuals who cannot demonstrate that all their decisions are in the best interest of their clients. The benefits should be able to be demonstrated by tangible cost improvements – for example, a two-fold benefit over the cost of the advice in the medium to long term – or be held to account.

Franchising in the financial services industry has led to a disconnection with clients and a focus on product sales, short-termism and the evolution of a greed culture within the distribution arm. This nexus needs to be broken, and broken quickly.

In the meantime, it is my observation that the rise of the 'non-aligned' financial planner has been considerable. While in some circumstances restrictions under Section 923A of Corporations Law may currently apply to the use of terms such as 'independent' or 'independently owned' or 'non-aligned', they are the ones who can offer advice without fear or favour. They don't receive commissions, volume bonuses, or operate under a conflict of interest. They are paid a fee for service. They know if they don't surprise on the upside, they are held accountable and destined to fail.

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