

February 2019

Key points:

- > The final report of the Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry contains 76 recommendations all of which the Federal Government and Labor say they will support and implement.
- > The report highlights the conflicted nature of sales and advice within the large institutions.
- > As a privately-owned firm we welcome the recommendations outlined in the report and look forward to their implementation.
- > Our business is largely unaffected as we have always operated with the utmost transparency placing our client's best interests at the forefront of everything we do.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry released its final report on Monday 4 February.

The Royal Commission exposed a wide range of wrongdoing and misconduct in the banking and financial services industry most notably within the country's major financial institutions; ANZ, NAB, CBA Westpac and AMP.

It has identified that these large financial institutions put profits before people with financial incentives that rewarded misconduct.

Our Licensee, Capstone Financial Planning, has long maintained that there is an inherent conflict of interest between sales and advice when it comes to the financial advisory services offered by the large financial institutions and their associated advisers; a position that has been vindicated with the findings of the Royal Commission.

Accordingly we welcome the recommendations outlined in Commissioner Hayne's report, all of which the Federal Government and Labor say they will support and implement. Here are some of the key recommendations:

Banking

- The law should be amended to ensure that mortgage brokers must act in the best interests of borrowers. This is a new obligation, with a breach of the best interests duty subject to a civil penalty.



- The borrower, not the lender, should pay the mortgage broker a fee for acting in connection with home lending.
- Changes in mortgage brokers' remuneration should be made over a period of two to three years, first by banning trail commissions on all new loans and then all other commissions.
- After a period of transition, mortgage brokers should be subject to the same laws that apply to financial advisers providing financial product advice to retail clients.

Financial advice

- All ongoing fee arrangements must be renewed annually in writing by the client.
- Before providing personal advice, an adviser must provide a written statement to the client explaining why the adviser is not independent, impartial or unbiased unless the adviser is allowed to use those terms under section 923A of the Corporations Act 2001.
- Grandfathered conflicted remuneration can entrench clients in older products even when newer, better and more affordable products are available. The Government agrees with the Commission's recommendation that grandfathered commissions should be repealed as soon as reasonably practicable.
- In three years' time there should be a government review in consultation with ASIC of the measures that have been implemented to improve the quality of financial advice.

Superannuation

- An individual should only have one default account. (Although the report makes no suggestion as to how the default fund be selected).
- Deduction of advice fees from a MySuper account should be prohibited.
- Hawking of superannuation products should be prohibited. That is, the unsolicited offer or sale of superannuation should be prohibited except to those who are not retail clients and except for offers made under an eligible employee share scheme.

Insurance

- The cap on life insurance commissions should ultimately be reduced to zero unless there is a clear justification for retaining those commissions.
- The remaining exemption of commissions on general and consumer credit commissions should also be reviewed to determine whether the exemption is justified.
- The law should be amended to:
 - Remove the exclusion of funeral expenses policies from the definition of 'financial product'; and
 - Put beyond doubt that the consumer protection provisions of the ASIC Act apply to funeral expenses policies.
- Hawking of insurance products should be banned.

Misconduct by financial advisers

- All AFSL holders should take the following steps when they detect that a financial adviser has engaged in misconduct in respect of financial advice given to a retail client:
 - Determine the nature and full extent of the adviser's misconduct; and
 - Tell affected clients and remediate those clients promptly.

Reporting compliance concerns

- All AFSL holders should be required to report 'serious compliance concerns' about individual financial advisers to ASIC on a quarterly basis.

How does this affect our advice and our relationship with you?

In short, there is very little impact on the advice and services we provide. In fact, the principles of transparency and acting in the client's best interests is something we uphold each and every day. It's these principles that form the foundation of our business and why we have chosen Capstone Financial Planning as our licensee.

Capstone Financial Planning is a 100% privately-owned national Australian Financial Services Licensee, which means it has no alignment to any bank or financial institution.

Through Capstone Financial Planning, we have access to a very wide range of insurance and researched investment products.

We are not incentivised to recommend any particular product or service, nor are we compelled to participate in, nor are we motivated by, reaching any sales targets.

When we recommend a product or service to you it's because we genuinely believe that particular product or service is an appropriate solution for your specific needs as we understand them to be.

Our reputation is important to us. It's what we've built our business upon, so you can be assured that we will always act in your best interests first and foremost. We simply wouldn't have it any other way.

In terms of its responsibilities and obligations, Capstone Financial Planning has long-established robust Professional Standards systems and monitoring processes in place to ensure that its network of advisers act ethically and in accordance with ASIC regulations. It's an association we're proud to be a part of.

Should you wish to discuss the recommendations of the Royal Commission report in further detail, please feel welcome to contact me.

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