Next on the Royal Commission hit list – wealth advice.

Will Davidson – Powerwrap CEO

The intense focus at the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services industry on incentive structures is likely to shift next to the banks' wealth advice.

While the focus is currently on mortgage brokers, bank wealth adviser departments will come under the public spotlight from mid-April.

All eyes will be on how Justice Hayne will approach the issue of vertical integration in wealth advice and whether that has been in the best interest of bank clients.

One conclusion could be that incentive structures are at the heart of the problem and have resulted in an overwhelming preference for in-house product.

The best indication of how Justice Hayne is likely to approach this issue is how ASIC approached this earlier this year. In January 2018, ASIC investigated the wealth practices of the banks in *ASIC Report 562: Financial Advice: Vertically integrated institutions and conflicts of interest.*
In this investigation ASIC interrogated individual client files to see how in practice actual client recommendations from 5 of the "Big 6" in wealth advice were being implemented. The 5 investigated were:

1. AMP;
2. ANZ;
3. CBA;
4. NAB; and
5. Westpac.

Alarmingly, ASIC found that the bank advisers had only fulfilled the best interest duties (Corporations Act s961B) in just 25% of the customer files reviewed. Further, in 10% of files reviewed, customers were likely to be in a "significantly worse off" position following the advice they were given.

The Royal Commission has virtually unconstrained power to investigate how actual product recommendations can be so heavily skewed to in-house bank owned product.

Already the industry is seeing the impact of the findings on the numbers of advisers within the banks and those with non-banked owned operations.

Earlier this month Bell Potter analyst Lafitani Sotiriou noted that in the past year alone, 804 advisers have left the likes of AMP, ANZ, Commonwealth Bank, IOOF, NAB and Westpac, while the number of advisers in the industry is slightly higher.

In February this year the number of advisers leaving these larger groups increased to 100 advisers per month, giving an annual run rate of 1,200. We expect the dramatic outflow of advisers to keep increasing as the Royal Commission turns its focus to wealth management in April.

Several of the advisers that have left the big banks have moved to non-bank owned licensees, which is understandable given the intense scrutiny on their then employers and their practices. Corporate Australia has countless examples in the past of the damage that can be done to business when the integrity of the brand is brought into question.

It is not going to be a pleasant Easter for the Banks as they prepare to defend their past practices in wealth advice, and try to stem the flows from their ranks.