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# SIA Response to the Royal Commission into Banking

We discuss the issues the Royal Commission has exposed.

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Around the country there are honest financial planners and bankers frustrated, angry and disappointed by revelations made at Royal Commission into Banking.

What we've seen the Royal Commission expose is that it's the system, not the professional financial planner community, that is at the root of the problem.

Given recent media coverage of the Royal Commission across all platforms, you could forgive someone for feeling that being involved in financial advice resembles behaviour exhibited in films like "The Wolf of Wall Street", where corporate profitability is put first and clients are last.

It's not.

In our experience with financial planners, the vast majority aim to look after their client's best interest. In our experience through lecturing at various universities in Melbourne, we know that the concept of "client's best interests" is drilled into financial planning students well before they commence their professional career.

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## The core of the problem

Having large organisations that produce product, who own financial planning businesses, presents a clear conflict of interest. The system has enabled larger corporate organisations to create sales centric models. Their culture, incentives and remuneration packages place the focus on the volume of products sold (or FUM – Funds under Management), and not always on the needs of clients.

With our experience teaching the next breed of financial planners, we've also seen first-hand that there are many employment opportunities for students to enter the corporate world. To put it into perspective, the Royal Commission was told that "an estimated 85 per cent of Australia's advisers are employed or licensed by a bank or large financial institution".<sup>1</sup>

Employment with a large institution is attractive for young financial planners as it provides an opportunity - given that there are very few entirely independent firms in the marketplace. It also offers young advisors a chance to see financial planning from many different perspectives.

However, young planners often realise that there is a disconnect between what they have been taught to do for their client and how they are being encouraged to behave by their employer. This leaves many disenchanted, frustrated and looking for alternatives within the industry or in some cases, they depart the industry.

Institutions who hire financial planners to push their products, have become the key problem.

## Sales first

The system puts sales pressure on employees to push an agenda, or to sell strategies which allow the broader organisation to profit.

Advisors are often taught to create a rationale or justify why a strategy is in the client's best interest. This rationale often ensures the organisation's internal agenda flourishes - even when there are alternative strategies which are more appropriate to the client's needs.

These sales centric environments are problematic and present a conflict of interest.

## Why do the majority of Australian's continue to accept conflicted advice?

Australian banks have a captive audience.

They have numerous opportunities to expand their portfolio of products to their clients. Many clients feel that it's "better the devil you know" and for many reasons, don't shop around because the banks are considered safe, given their size and scale.

In fact many advisors use their linkage to the bank as part of their selling proposition, proudly suggesting that they have the financial strength of the broader organisation supporting them.



The Australian Competition and Consumer Commission chairman, Allan Fels told Fairfax Media that “the deeper problem in the industry was the inherent conflict created by having the same bank both manufacture a product - like an insurance or superannuation product - and then also employ financial advisers to provide advice to customers on whether to buy such a product.” 2

A recent review of such “vertical integration” by ASIC found that while banks’ products represented just 21 per cent of products on approved lists for their financial planners to recommend, 68 per cent of client funds ended up invested in such in-house products. 3

## Changes in the current landscape

The current financial system, can be, but is not always, conducive to allow a few “bad eggs” to thrive. This is not a reflection on the vast majority of financial planners, but of the system they operate in.

We’ve always viewed our independent model of providing financial advice, with no links to a financial organisation that sells and distributes financial products, as one which bucks the trend.

With fewer than 90 Independent Advice firms out there, our view is certainly true.

The only way we feel comfortable with putting food on our table, is to charge fee for service, not opaque fees that align us with a provider. Our well-established, transparent fee for service, reflects our time spent on consultations, research and the creation of strategies that are aligned with our clients financial and lifestyle goals. Our fee for service is our only source of income.

We see a world where we share clients. Where clients decide to move from one advisor to another, because of the advisors niche specialisation, geographical location and personality fit - not based on an advisor’s ethical compass or business conflicts.

## What we hope the Banking Royal Commission will achieve

We trust the Royal Commission will address these industry issues. We hope it does not focus on a few media personalities, or financial planners in the suburbs become the scapegoat for these far reaching, entrenched, problematic system issues.

Our response to the banking Royal commission is effectively our [independent opinion service](#). It’s an offer that is now overwhelmingly relevant in this current environment.

For us, it’s important that our clients understand they can assist family and friends who may not be aware about the shortcomings of the wider financial system in Australia.

In our opinion, it is also a professional obligation that accountants, insurance and other professional experts, who might not deal directly in the financial space, ensure their clients know that there are other, non-conflicted financial planning options available.

We want all consumers to understand how their advisor is structured and to become aware of alternatives that provide fair, non conflicted results.



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You may have friends and family who are questioning their current financial strategies, their retirement plan and confidence (or conflict) of their advisers.

Whilst we cannot work with everyone, we will honour [introductions made to our firm](#) and ensure that if we are unable to assist, there will be non-conflicted mechanisms in place to help.

**Joe Stephan**

**Independent Financial Advisor.**

**References:**

- 1: [Royal commission: get forensic on your finances to check you're not being ripped off](#)  
The Australian Financial Review, 27 April 2018
- 2 & 3: ['Stamp out this behaviour' - banks should not offer advice says Fels](#)  
The Age. April 18, 2018