Ex FSC boss U-turns on bank wealth managers

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One-time lobbyist for the retail wealth management industry, John Brogden, now reckons the big four banks should scrap their "vertically integrated" business models, citing conflicts of interest and flawed pay policies.

"Vertical integration and flawed remuneration policies are plaguing the banking and financial services industry," Mr Brogden said. "If I was on the board of one of the big four banks at the moment I would be telling the executives to look at selling their wealth management arm."

In his current role as chief executive of the Australian Institute of Company Directors, Mr Brogden is the torchbearer for good corporate governance and strong boards. His stance against the vertically integrated selling practices of the retail wealth management industry is a dramatic U-turn from advocating for it in his former role as head of the Financial Services Council for five years until October 2014.

A vertically integrated financial services company is one that makes money from both producing and distributing financial products. "Vertical integration is a structure that increases the opportunities for conflicts of interest," Mr Brogden told an Australian Centre for Financial Studies event in Melbourne on Friday.

Commonwealth Bank of Australia, Westpac, ANZ and National Australia Bank all have vertically integrated business models.

Fairfax Media's recent expose of poor practices at CBA's life insurance arm CommInsure was the latest in a slew of scandals that highlighted the need to shake up the model of vertical integration, Mr Brogden said. In recent years Fairfax Media has also reported on conflicted advice and remuneration practices in CBA's financial planning arm.

In Monday's *The Australian Financial Review*, NAB chief risk officer David Gall writes that the bank has changed its remuneration policies to foster a more positive culture. "Thirty per cent of the performance incentives of our executives are now linked to customer advocacy and all of our people must meet agreed customer outcomes."

Mr Gall and chief risk officers from ANZ Bank and AMP will discuss the challenge of managing culture at The Australian Financial Review Banking & Wealth Summit in Sydney on Tuesday and Wednesday.

Australian Securities and Investments Commission deputy chairman Peter Kell told the Australian Centre for Financial Studies event that the corporate watchdog is fed up with bank executives blaming "bad apples" when scandals erupt rather than taking responsibility for changing the culture and incentives in their organisations.

Mr Brogden said he was surprised that the 2014 financial system inquiry did not recommend a review of the sustainability of vertically integrated financial services firms.

Financial system inquiry panel member Kevin Davis said the inquiry had devoted significant discussion time to the topic but had concluded that once the Future of Financial Advice reforms introduced in 2010 were fully implemented this should remove many of the problems.

But Mr Brogden said if the FOFA requirement to always act in the clients' best interest is properly implemented "then the reason for the banks to own wealth management arms largely disappears, because they can't use them to push their own product".