Waging the war of independence

LAW firm Slater & Gordon says financial institutions must shoulder a lot of the blame for the Storm Financial mess, and the deeper the authorities dig, the worse these organisations look.

After six months of denial, the Commonwealth Bank of Australia conceded in June that it played a role "to some degree" in the position some Storm clients found themselves in.

Emerging from the wreckage are allegations that Colonial Margin Lending, the lending arm of the CBA, gave Queensland-based Storm a 200-basis-point discount on its headline fixed interest rate, in effect handing Storm control of the margin lending market in Townsville.

If the standard interest rate was 8.6 per cent, Storm could slice up to 23.25 per cent off the price, knocking out its competitors, winning new clients and pocketing any additional margin. Clients had no chance of getting a better deal.

The cosy relationship between CBA and Storm is disturbing, given that Storm had boasted of its independence.

The bank provided home loans, margin loans and Storm-branded index funds. It also handed Storm a $10 million corporate loan facility. Challenger also lent Storm $10 million in 2004 to expand its business, and in return Storm sold Challenger index funds.

It's not surprising that consumer confidence in financial planning and funds management is at its lowest.

Since the collapse of Westpoint in 2006, Australian retail investors have suffered about $8 billion in losses owing to the corporate failures of Fincorp, Centro Properties Group, Lift Capital, Opes Prime Group, Storm, Timbercorp and Great Southern Plantations. In the past 18 months, they've also watched their portfolios shrink as equity markets tumbled.

Once again, independently owned financial planning businesses have found themselves embroiled in the troubles.

In May, the Association of Independently Owned Financial Planners (AIOFP) established a Great Southern Recovery Committee, admitting that 30 of the group's 180 members had an exposure to Great Southern.

Similarly, the semi-independent Professional Investment Services – which is 23 per cent owned by Aviva – found itself at the centre of the Timbercorp and Great Southern debacle. PIS is estimated to account for 40 to 50 per cent of the Great Southern book, prompting the Queensland-based dealer group to consider establishing a consortium to buy the assets of Timbercorp and Great Southern.

PIS is on track to post another loss in 2008-09. In 2006-07, PIS recorded a $9.3 million drop in annual profit after being forced to set aside $17.5 million to defend itself against legal action by Slater & Gordon in relation to the sale of Westpoint products. For the six months to December 31, 2008, the group announced a profit before tax of just $16,000, and this is expected to fall further because of a threefold increase in provisions against claims for providing unsuitable advice to clients.

Exactly how PIS plans to successfully run an agribusiness managed investment scheme (MIS) – an area in which it has no expertise – will be interesting, in light of the trouble it has experienced with running a dealer group, an area in which it has plenty of expertise.

At the time of writing, there was talk that a shake-up of the PIS board is imminent, given it primarily consists of accounting and financial planning practitioners and Aviva management. The firm is looking to boost its experience in the management of risk and big business, and it's also considering buying out Aviva's 23 per cent stake following Aviva's sale to MLC.

Earlier this year, PIS also had problems when real-estate investment manager MacarthurCook told hundreds of PIS clients that their capital in the MacarthurCook Retail Property Trust had been lost. PIS blames MacarthurCook for poor property selection and management, and MacarthurCook blames PIS, saying it did not establish the trust but inherited it after PIS decided it lacked the resources to continue managing it. PIS is considering a class action on behalf of its clients against MacarthurCook.

One thing PIS, Storm and the AIOFP lack is a rigorous, uniform process for researching and recommending products, relative to other groups.

Storm paid Ignite Financial Systems and Research, a business owned by Storm's founders, Emmanuel and Julie Cassimatis, to provide product research and analysis and tailor funds and indices for clients.

PIS and AIOFP members can shop around for ratings from a number of ratings houses, including Lonsec, Morningstar and van Eyk Research, and boutiques such as Zenith and Aegis Equities/Property Investment Research.

But it's not just the independently owned groups tied up in the failure of Timbercorp and Great Southern. The institutions are also there, including AMP Financial Planning, ING's Financial Services Partners and IOOF's Consultum Financial Advisers.

One big name, Axa, has managed to stay out of the spotlight. Relative to other groups, stricter rules apply to Axa's approved

Since the collapse of Westpoint in 2006, corporate failures have cost Australian retail investors $8 billion.

product list. The upside is significantly lower professional indemnity premiums. The group has no exposure to Westpoint, Lift Capital, Timbercorp or Great Southern. There are no agribusiness MIS on Axa or Charter's approved product lists (APL). The only agribusiness MIS their planners are able to recommend is ITC, and only after they've completed an agribusiness accreditation course, the full financial plan has been checked and permission has been granted. Only a maximum of 5 per cent of investable assets can be allocated to MIS.

The latest group in the Axa fold, Genesys Wealth Advisers, is faced with the challenge of ensuring its research processes remain robust, despite the recent loss of its "Charter of Independence", the departure of its longstanding research team led by Dinyar Irani and its cautious institutional parent.

In April, amid claims from its own members that Axa had hijacked the Genesys APL, Genesys appointed external research house van Eyk and internally appointed former research manager at AMP Financial Planning, Jerome Bodisco, and former BT Wrap manager Helen Richardson to run its research process.

It is understood that in October last year, three months after the sale of Genesys to Axa, Irani and his team were asked by Genesys management to focus their attention on reviewing and approving Axa products, including multi-manager funds offered by its subsidiary, ipac. On December 18, at a meeting of the Genesys investment committee, the research team raised questions about some Axa funds but was encouraged to fast-track the usual processes. Irani and his team left Genesys in April to join ING's RetireInvest, and Axa's funds gained their "recommended" rating.

Partnering with the right dealer group is critical, as this month's cover story concludes, but it's not just the institutions one should be wary of.

As Tony Fenning charges ahead with his Best Advice Project and the branding of the combined independently owned Shadforth Financial Group, colleagues and clients of his former employer, Tynan McKenzie, are looking on with interest.

Fenning worked tirelessly and strategically to prepare Tynan McKenzie for sale in 2006, to maximise the end price paid by Axa-ipac. It is understood Fenning leveraged the ipac relationship to reduce costs and increase product margins, and secured financing courtesy of Axa to acquire other profitable businesses, roll them into Tynan McKenzie and get them to support ipac's products and the group's badged BT platform.

In short, Tynan McKenzie took on large books of clients and raised product, administration and advice fees before selling up, cashing in and handing the reins to Axa.

Fenning is planning to do it all again. This

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month, he will officially launch Shadforth Financial Group, the amalgamation of 12 financial planning businesses under one brand. The goal is a public listing when markets bounce back.

The directors of each firm have exchanged their shares in the underlying companies for a proportional share representation in Shadforth Financial Group. Fenning is hoping that retail investors will be keen to buy into the succession plan of a group of ageing financial planners again.

A large percentage of the group's revenue and profit is derived from rebates and margins from selling the BT Wrap platform and a handful of badged Dimensional managed funds.

Ironically, that model opposes the stockbroking roots of the original Shadforth in Tasmania, which historically recommended direct shares rather than managed funds.

Fenning is focused on merging the underlying practices in the next 18 months to form one super business, but the model isn't for everyone. In May, financial planner Steve Inwood, a 10-year veteran of Queensland's Kilkenny Rose, left to join AMP's Hillross dealer group (see cover story, page 18). Inwood believes financial planners should be able to choose from at least two platforms.

Hillross hit the headlines in May after the Australian Securities and Investments Commission forced it to remove all references to independence from its website.

It was Brett Walker, principal of SMART Compliance (formerly FSI Consulting), who alerted the regulator to the Hillross site, saying it misled consumers by claiming to be independent.

"Hillross' attempt to capitalise on the perception of independence just goes to show how valuable that perception is to advisers who cannot make the claim," Walker says.

The principal of Puzzle Financial Advice, Bruce Baker, agrees that being independently owned is an admirable quality, but too many institutionally aligned businesses feign independence, confusing the client.

Baker continues to push for the separation of genuine independent planners from financial product agents/salespeople.

"Good financial planners are sick of having their good names harmed by salespeople," he says.

In this month's cover story, the director of consulting firm Kenyon Prendeville, Alan Kenyon, talks about the increasing number of financial planners seeking their own licences. But as Storm and others demonstrate, independent ownership does not guarantee independent thinking, and not all financial planners licensed through an institution are financial product agents.

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