



WHITEPAPER

Building a Stronger Australian Financial Services Industry, Complaint by Complaint

A briefing on the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (February 2019)

What's happened?

The Royal Commission's report was released in February 2019, and sent shockwaves through the Australian financial services sector. The report should be read with a view to damage that has been seen elsewhere by poorly regulated Financial Services. The report looks into 'Misconduct in the Banking, Superannuation and Financial Services Industry', following a rigorous 15-month enquiry of 2,000 customers' complaints involving counsel, lawyers and public hearings of customer complaint case studies. With this action we expect extensive change for Australia.

The report has some shocking findings for those that assumed that lessons were learned globally from wider world industry failings. To an extent the report considers what would happen if financial services companies sincerely cared for customer experience. It seems that the Royal Commission's findings push that question towards the financial services industry in Australia. What if regulators, supposed to take care of the average consumer and their financial interests, created a level playing field?

“conduct by many entities that has taken place over many years causing substantial loss to many customers but yielding substantial profit to the entities concerned.”

Terms of reference

Members of the public submitted more than 10,000 complaints about financial services entities by using the Commission's online form

Solicitors and counsel assisted to examine in detail these cases of alleged relevant (inappropriate - whether any conduct, practices, behaviour or business activities by those (Financial Services) entities fell below community standards and expectations') conduct

The Commission held public hearings into case studies chosen from the public's online submissions – per the Commission's Interim Report October 2017

Three other rounds of public hearings took place

- In August 2018 concerning superannuation
- In September 2018 concerning insurance and ...
- In November 2018 – taking evidence from some CEOs, executive boards and the heads of ASIC and APRA re policy and issues raised in the Commission's Interim Report

The publication of the Commission's findings. The report has summary findings for each of the following: 'banking', 'financial advice', 'superannuation', 'insurance', 'culture, governance and remuneration', 'regulators' and 'other important steps'

Four observations from the report's findings in their own words:

Author of the report Kenneth Hayne, former Justice of the High Court of Australia, reaches the following overall conclusions (it is perhaps noteworthy that the report's section 6 commenting on 'culture, governance and remuneration' runs to 79 pages):

1. *'In almost every case' service to the customer is secondary to the pursuit of profit*

'The conduct in issue was driven not only by the relevant entity's pursuit of profit but also by individuals' (financial services' employee) pursuit of gain.'

2. *It was observed by the Commission that there is a 'marked imbalance of power and knowledge between those providing the product or service and those acquiring it'.*

'Consumers often had little detailed knowledge or understanding of the transaction and consumers had next to no power to negotiate the terms'

3. *Customers often bought financial services products or services through an intermediary, but with little added value to them in the transaction from doing so.*

'The client might assume that the person standing between the client and the entity... acted for the client and in the client's interests.'

However...

'The intermediary is paid by, and may act in the interests of, the provider of the service or product. Or, if the intermediary does not act for the provider, the intermediary may act only in the interests of the intermediary'

4. *There was little or no action against those perusing acts of financial wrongdoing in the financial services Industry. In addition, punishment was not expected by the wrongdoer.*

'Misconduct will be deterred only if entities believe that misconduct will be detected, denounced and justly punished'.

'The Australian community expects, and is entitled to expect, that if an entity breaks the law and causes damage to customers it will compensate those affected customers'.

'Having a wrongdoer compensate those harmed is one thing; holding wrongdoers to account is another'

Overall

...very often, the conduct (reported by consumers) has broken the law. And if it has not broken the law, the conduct has fallen short of the kind of behaviour the community not only expects of financial services entities but is also entitled to expect of them'.

The overall feeling

The themes of the report are clear and its implications far reaching.

Structural reform of Australia's financial services industry is needed. This involves an appropriate punishment regime for misconduct which can only be fulfilled by legislators. Significant culture and attitude change is required by financial services providers from CEOs through to staff and financial services intermediaries. Consumers must be appropriately empowered to make informed choices. Regulators must oversee changes to affect such outcomes.

The report should be applauded though for its thoughtful engagement of stakeholders and for its attempt to secure the future of Australia's customer facing financial services sector.



What now?

Australia is now heavily undergoing the same transition already seen abroad. The United Kingdom saw its financial services authority wholly replaced with a much stronger and unforgiving regime, namely the Financial Conduct Authority. This forced UK finance to review their customer experience and complaints management statuses, ultimately taking their once Access Database and CRM failing customer service departments to mission-ready complaints specific software such as Apteian Respond.

In the wake of the Royal Commission report and the launch of AFCA, this means there is a gift for Australian firms. They benefit from the ability to join an already evolved and scalable SaaS ready complaints solution born out of real world learnings from firms under the following watches: FCA (UK), FSRA (Ireland), CFPB (USA) and FSB (South Africa). The Apteian Respond solution is AFCA ready and has Australian-based staff available to guide the organisation through the necessity of it, as opposed to forcing your CRM to ultimately create further risk in this now highly regulated space. With Apteian Respond you can be ready for AFCA, deliver exceptional service and put your organisation ahead of your competition.



Apteian provides specific industries with purpose-built ERP, supply chain management and compliance solutions. In today's fast-paced, highly competitive economy, organizations don't have time to waste forcing homegrown software, spreadsheets and one-size-fits-all solutions to do things they were never designed to do. That's why over 2,500 highly specialized organizations in more than 20 industries and 54 countries rely on Apteian to streamline their everyday operations. To learn how Apteian can help your organization stay at the forefront of your industry, visit www.apteian.com.