How to Deliver on the Banking Royal Commission Promise

"Its bark was worse than its bite". That seems to be the general conclusion from the Hayne Royal Commission into Financial Services. Yesterday's dramatic rally in shares of banks and wealth managers is evidence for that conclusion.

My view: the proposed reforms can be far more significant than sanguine bank investors currently anticipate.

Many are disappointed that he didn't recommend forced dismantling of the industry giants. I disagree. As a broad principle, Hayne's focus on incentives is welcome.

Deciding which businesses need to be dismantled, how and when is nigh on impossible. Instead, his focus on incentives will make it so cumbersome and expensive to run a conflicted business model that the banks will dismantle themselves.

If, that is, a lot of thought goes into how to best deliver the recommendations.

Here are a few of my suggestions:

1. Spend significantly more money on financial literacy

The government and ASIC run a website called moneysmart.com.au. It is a wonderful resource. If you spend one whole day on it you will be a much wiser consumer of financial services. Yet hardly anyone knows about it.

It needs an annual advertising budget and should be running educational adverts across TV, radio and the internet. The ABC should run a weekly MoneySmart program along the lines of The Checkout. For all of the sensible rules and regulations, the best way to protect investors is to equip them to fend for themselves.

2. Provide free basic financial plans for those with low savings

A financial plan from a good, genuinely independent financial adviser is going to cost at least $3,000. Perhaps as much as $10,000. Many vested interests point out that a significant portion of the population don't have enough (or any) savings to justify such a large expense.

Let's get one thing straight. You are better off with no financial plan than the one you will receive from a conflicted adviser sticking your hard-earned savings into a crappy product on which they receive a kickback. Yet they have a point.

Good advice is expensive. And it's only going to get more so with all of the new regulations.

Most of us, though, don't need anything complicated. If you don't have enough to afford a good human advisor, the principles are straight forward:

- Spend less than you earn
- Keep your expenses low, including tax
- Invest in a diversified pool of real assets like shares and property

The MoneySmart website should include a few basic financial plans for those without significant current resources. One for the **Nuclear Family**: Two point two kids, saving for a house deposit, planning on private school fees and wants to save enough for retirement. One for the **Millennial Renter**: Couldn't care less whether they own a house but wants freedom and enough savings to live a comfortable renter's retirement. One for **Miss Because You're-Worth-It**: It has been a blast but she's thirty and has $100k in credit card debt and it's time to stop digging.

Off the top of my head, there might be six broad categories to deal with. Answer a few questions on the moneysmart website and it spits you out a simple plan for the next 5-10 years. Throw in an additional feature where you track progress against the pre-agreed goals and you've got yourself a cost-effective financial planner for a significant percentage of the population.

3. Force customers to read what they are agreeing to

There is one simple recommendation in the Hayne report that I like a lot. Let's call it the Declaration of Non-Independence. At the moment, conflicted advisers are not allowed to use the word independent in their marketing documents. Hayne wants to flip that rule on its head. Instead of passively excluding the word independent, conflicted advisors will have to actively tell clients that they are not independent. That's an important change. The way a question or statement is framed can dramatically change its impact.

But what if it is buried in the fine print? Most consumers tick what they are asked to tick and sign what they are asked to sign.

This Declaration of Non-Independence, and the annual acceptance of fees and changes, is so important that I would force advisors to collect consent in a written or recorded-audio form.

And that means the client has to write it, rather than tick a box and sign. If you are a CBA Wealth client, you have to send an annual email, letter or recorded voice message that states:

> "I know that my adviser is not independent and that his or her advice to me may be biased as a result. I am aware that I am paying $XX in fees over the next 12 months and understand what services I am being provided for those fees"

Simple. And devastatingly effective I would imagine.

All about the delivery

Reading through the Royal Commission recommendations, it is obvious that Kenneth Hayne QC has read his Daniel Kahneman (and maybe his Charlie Munger). Fixing the incentives will go a long way to fixing the system. Like a good business, though, these things are 10% idea and 90% execution.

Those responsible for delivering on the recommendations have a huge role to play. They should start with Thinking Fast and Slow.