Misconduct and maladministration at IOOF Systemic.

Summary:
Millions of Australian rely on advisers, banks, financial firms and superannuation funds to behave ethically and lawfully. Unfortunately recent events show that predatory business practices are common and causing great harm to bank clients. The move toward a proper Royal Commission is now inevitable.

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IOOF Allegations Demand Royal Commission Into Financial Services

The Coalition and the Labor Party had a chance on June 24 to support a much-needed royal commission into the financial services industry. Both declined.

Their decision betrayed millions of Australians who rely on advisers, banks, financial firms and superannuation funds to behave ethically and lawfully in managing billions of dollars in life savings – and on regulators to make sure they do.

The impetus for a royal commission has grown as revelations by Fairfax Media investigative journalist Adele Ferguson of wrongdoing and poor governance have engulfed Commonwealth Bank, Macquarie Private Equity, National Australia Bank and IOOF.

What began in 1846 as the Victorian Grand Lodge of the Independent Order of Odd Fellows friendly society has grown into a 650,000-customer listed company. It controls $150 billion of investor funds and uses almost 1200 finacial planners who struggle with a hotch-potch of technology courtesy of acquisitions and a low-cost research department.

Fairfax Media reported in June that senior staff at IOOF engaged in alleged misconduct including insider trading, and there have been claims of front-running, misrepresentation of performance figures, and that junior staff in the research division were asked to cheat on training and compliance modules on behalf of their boss. IOOF has compensated 57 clients in the past two years.

The firm's share price has dropped 20 per cent since those Fairfax Media reports.

Days after the revelations, and shortly after the royal commission motion was defeated, Nationals senator John Williams explained why he crossed the floor to vote with the Greens and crossbenchers.

"The financial advice industry has not learnt its lesson," Senator Williams said. "A warning to these companies: do not do the wrong thing, because you have good, decent people working for you, who will no doubt tip off the media or send documents to my office like the documents which I have received this week."

IOOF chief Chris Kelaher has since admitted to a Senate committee that the company did not report serious allegations of misconduct by senior staff to the corporate regulator even though the company investigated insider trading and front running six years ago.

He insisted there had been no systemic failure and that his firm "has an extremely strong compliance culture and claims of widespread wrongdoing have no basis in fact. The issues raised were historic and have all been identified internally."

With respect, the facts as disclosed suggest a culture of turning a blind eye or a failure of safeguards. Moreover, even the regulator accepts that the law lets firms hide behind the requirement that only "significant" breaches must be reported.

The extent of the risks to customer savings at all financial services firms needs to be examined by an inquiry with the powers of a royal commission. The cost would be small compared with the quantity of customers' money at stake. Industry participants should be compelled to give evidence under oath, whistleblowers be given immunity to speak and the commission allowed to examine regulators to see what resources and laws they need to provide deterrence against shonks and a safety net when that fails.

The key issues would include:

The vulnerability of whistleblowers, given that a number of concerned staff at IOOF left the firm or have been subjected to smear campaigns.

How vertical integration has increased the risk of errors in handling funds but also raised temptations to mislead clients into buying products profitable for other parts of the business.

The role of independent experts in reviewing self-reporting firms and delivering research advice.

The funding and resourcing of regulators.

The quantum of penalties for breaches.

Labor, given the grilling Bill Shorten faced from the royal commission into trade unions, surely must support one into financial services – unless it fears further exposing union links to industry super funds. Indeed, Labor senator Sam Dastyari has been vocal in pursuing wrongdoing by financial services firms.

The government has form on this. It bowed to pressure from the financial industry to try to weaken regulation even further. Thankfully that move was rejected.

The Coalition's excuse for not backing a royal commission is that the financial services industry has never been under closer scrutiny.

But as Ms Ferguson has revealed, the government plans to announce in August reforms to lift financial planners' educational qualifications to university standard and establish an independent body to oversee the sector. If that is the extent of the response, the public will be sorely disappointed.

Average Australians cannot afford to wait to see if half-hearted responses work. They deserve peace of mind and action now.

Websites For More Information: IOOF Allegations Demand Royal Commission Into Financial Services
http://www.smh.com.au/comment/smh-editorial/ioof-allegations-demand-royal-commission-into-financial-services-20150709-gi8e8a.html

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