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AMP needs a cultural shake-up

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The astonishing disclosures at the Hayne royal commission on Tuesday leave one obvious question hanging over AMP: what will be the long-term financial consequences for the country's oldest life insurer and owner of the country's largest financial advisory network?

The minimal financial damage caused to Commonwealth Bank of Australia from its financial planning scandals could lead you to conclude that AMP's iconic brand will be resilient in the face of the evidence of ethical and cultural failings at the very top of the organisation.

But that ignores the fact that CBA was never accused of deliberately lying to the Australian Securities and Investments Commission.

Also, there was never evidence that CBA's senior management and board sought to cover up or interfere with independent reports into the behaviour of its wayward financial planners.

It is distinctly possible that AMP's domestic franchise will be permanently harmed by the evidence presented to the Hayne inquiry by counsel assisting, Michael Hodge QC, who has spent a day-and-a-half examining AMP's head of advice, Anthony "Jack" Regan.

Tuesday's negative share price action suggests the market thinks AMP will suffer longer-term damage from the Hayne inquiry's disclosures about the company's willingness to use deception and obfuscation in response to mistakes.

The stock fell 4.4 per cent to $4.55, a 12-month low. About $600 million was wiped off the value of the $13 billion company amid the relatively heavy trading of 18 million shares.

Evidence presented by Hodge showed that AMP was willing to go to astonishing lengths to deal with a customer remediation problem that cost the company less than $4 million.

This is extraordinary considering the company recorded life insurance premiums of about $2.4 billion in 2017 , investment income of $11.8 billion and pre-tax profits of $1.7 billion.

The actions taken by management in response to its discovery that 15,000 clients were being charged for advice without being given advice were far worse than the original mistakes.

The revelations about the way the company's management and board interfered in an "independent" investigation by Clayton Utz into the "charged-for-advice-with-no-advice-given" incident must raise questions about the security of tenure for the chairman, Catherine Brenner.

On the evidence presented to the Hayne inquiry, Brenner appeared determined to ensure that the Clayton Utz document received by ASIC explicitly exonerated chief executive Craig Meller.

There was evidence that Meller knew nothing about customers being charged fees for advice when no work had been carried out.

But that was not the central point of the evidence.

Chanticleer believes it was all about showing the willingness of the company to massage the relationship between the company and its regulator.

It is unbelievable that AMP's board would do this given the earlier evidence about the deliberate deception by AMP managers of ASIC in the reporting of the original breaches of the Corporations Act.

Chanticleer cannot understand why AMP delegated the responsibility for engaging with ASIC to managers so far below the chief executive. In AMP's case it would appear the responsibility for this was two levels below Meller.

A well run company supervised by ASIC should have the CEO at the front and centre of the relationship.

The logic for this is pretty compelling. A regulator can ultimately determine the future of the enterprise. It is a key strategic relationship.

Not only did AMP not understand this basic tenet of operational risk management, its chairman appeared far too willing to influence the contents of the Clayton Utz report even though AMP promised ASIC it would be an "external and independent investigation".

The Hayne inquiry's revelations about the role of the board and management of AMP in activities that undermine its reputation in the eyes of consumers come at a difficult time.

The company's CEO, Meller, has retired but is not due to leave the company until the end of the year. He is a lame duck CEO. Brenner is conducting a global search for a new CEO.

If her fellow board members take a dim view of her role in the Clayton Utz report it could throw a spanner in the works and destabilise a company that is already under severe market pressure.

Long-standing and large shareholder Perpetual sold about 30 million shares last week after giving up on efforts to force management changes and an acceleration in moves to release value through the sale of various businesses.

AMP must surely have reached levels which will attract the attention of private equity. The break-up value of the business ought be a lot more than the current price of $4.55. It has a fast growing joint venture in China, a well regarded funds manager in AMP Capital, a fast growing and well managed bank and a wealth platform business that is in the top five.

The damage to the image of AMP's financial planning business from the Hayne inquiry could be long lasting.

Either way, it is almost certain the royal commission will recommend ASIC be given increased powers.

ASIC does not come out of the AMP debacle looking like an Olympic athlete. It moves at a snail's pace. For example, the investigation into AMP's treatment of the 15,000 affected financial planning clients is still under way almost two years after the activity stopped and nine years after the errant activity started.

AMP is emerging as a fascinating case study of what can happen when you have the marriage of disparate cultures. The takeover of the Australian and New Zealand operations of AXA Asia Pacific introduced into AMP the hard driving sales culture of what used to be National Mutual.

Chanticleer remembers when the life insurance wars between AMP and NML saw both companies allow commission-driven sales practices to create a nasty mismatch of assets and liabilities in the 1990s.

This led to severe capital problems for National Mutual, which needed to be bailed out by the French with the approval of treasurer Paul Keating.

AMP has been a serial disappointment for investors for about a decade. It needs a major cultural shake-up and this will fall at the feet of the new CEO. It will be up to him or her to review all the Hayne inquiry evidence and take action against executives as required.

The AMP board will have to examine itself and decide what is best for shareholders in light of what has been exposed by the Hayne inquiry.

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