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Big banks corner advice

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The door to easy, fast growth at home may have slammed shut for Australian banks but the wealth-management window is still open. Little wonder the banks are so enthusiastic about piling through it in even greater numbers.

Despite the carnage in the sharemarket and further maulings to come, the super guarantee alone ensures the $1.3 trillion industry can only increase in size. The fastest growing sector in wealth management, accounting for nearly one-third of all assets, is also the self-managed super funds – natural habitat of financial planners.

This puts the bitter argument between the Commonwealth Bank of Australia's subsidiary Count Financial and Westpac Banking Corp's BT Financial Group into context. It's about a lot more than which bank wins the tug-of-war over a few dozen financial planning practices.

For banks, the acquisition of planning groups and their clients is the quickest way to expand their distribution networks. Vertical integration is the ideal – even if the welter of different names can obscure that reality for customers.

For their part, many financial planners also see the commercial virtue of becoming part of a larger group. Of course, the degree of truly independent advice was always conveniently exaggerated, particularly given the extensive use of commission payments and rebates from product providers.

But government reform of the industry – including phasing out of commissions, clearer rules about detailing exactly what clients are paying for, an end to volume rebates and new compliance requirements – will make life as an independent more complicated and expensive.

It helps that the bigger fish in the money pond are also willing to pay up big to swallow the smaller fish.

Count Financial's founder, Barry Lambert, for example, decided to cash out Count's decades-long history as an independent financial advisory network last year. Through its wealth-management arm in Colonial First State, CBA paid $373 million to effectively take over Count's 630 advisers.

The problem for BT was that Count's planners had mainly used the BT Wrap platform as part of a relationship dating back more than two decades. Count's advisers had helped the BT platform become the biggest in the country, with assets of close to $90 billion.

Barry Lambert promised an "open architecture" arrangement. Count planners could still use the BT platform or move to Colonial First State or make use of others according to individual planner preference. BT, which was also determined to expand its own Magnitude financial advice business, clearly didn't believe this would be a good outcome for it.

So Magnitude started offering fat "sign-on fees" to Count's better performing financial planning practices. The industry gossip is that these sign-on fees are anywhere from $500,000 to $1 million, which would represent a vast ratcheting up of the usual level of payments.

Although BT denies these figures, it won't offer what is correct. It is believed to have poached under 10 Count practices so far, but is talking to 15 or 20 more.

Colonial First State is similarly believed to have increased its pool of "retention" payments to encourage planners to stay.

For the diminishing number of planners still determined to remain independent, this spat is just part of a disturbing trend limiting competition in advice provision.

The managing director of independent advisory group Paragem, Ian Knox, is a strong critic of the momentum towards consolidation that means ownership and distribution are increasingly held within the banking system.

"Those big sign-on fees can only be paid for through providing product rather than professional services," he says. "There is no other mechanism to make that amount of money worth it. Platforms are promoted as administrative vehicles but in effect they are a product. Bank A buys a dealer network that was aligned with Bank B but Bank B then buys out dealerships."

His argument is that consumers are the ones who end up paying.

"It also goes against the idea of professionalising services and advice," he says.

"How do the professional bodies feel about this? My suggestion is that these planners should be called agents. I don't believe anyone who signs on with BT will be encouraged to use a competing platform. This is a huge industry increasingly controlled by the banking system with an oligopoly on advice."

The alternative view is that such expanded bank control should at least curb the unhappily proven ability of some smaller financial planners to give inappropriate or badly conflicted advice to clients.

Particularly for many in self-managed super funds, the costly lesson of recent years was that supposed experts had precious little expertise when the market did other than rise spectacularly.

Not that the connection with a larger bank is a guarantee of safety in numbers. Remember CBA's provision of margin loans to clients of the collapsed Storm Financial?

It's all part of big banking business now.

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