Australian Financial Services

– an industry that has lost its focus & sense of purpose

A personal perspective

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About the author

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Barry Daniels has a 36-year career in financial services and property including 15 years in funds management, holding qualifications in the combined disciplines of mechanical engineering, financial planning and funds management.

Over the course of his career, Barry has owned financial planning practices with in excess of 6000 clients with $350 million funds under advice, providing financial planning advice to investors large and small.

Barry has been involved in various residential infrastructure property development funds since the 1980s with end-value valuation in excess of $580 million on behalf of fund managers, residential property syndicate investors, land developers and private financial planning client investors, specifically including property funds management and residential property development syndications.

He has also had roles involving site acquisition, site due diligence, site financial analysis, syndication, Information Memoranda preparation, chairing compliance and investment committee functions, and AFSL Keyman and Responsible Manager roles, through to site project management and investor relations.

Australian Financial Services
– an industry that has lost its focus & sense of purpose

Historical summary

Since its inception, the financial services industry in Australia prospered immensely from the life insurance mutual companies that existed for nearly 150 years by protecting and raising the standard of living of the nation's people.

Intermediaries were introduced to facilitate the realisation of consumers financial aspirations and/or concerns into direct obligations via life insurance policies or wealth creation strategies. By doing so, the financial sector improved both the quantity and quality of peoples' lives whilst simultaneously contributing immensely to the country's economy.

Unfortunately, in the 1990s the industry in Australia abandoned its long-held conservative principles and the new breed of managers went on a frenzy devouring itself. One household brand after another was lost in a steady stream of amalgamation and buy-outs that saw one group after another disappear.

Not only did Australia lose long established mutual groups like Colonial Mutual, National Mutual, Mercantile Mutual City Mutual – other brands like Norwich, Scottish Amicable, Legal & General, T & G, Prudential, AC&L, Friends Provident and Tyndall were lost too.

To compound the dilemma, the situation has worsened since 2001 the introduction of FSR and ongoing government intervention seeking to improve the performance of the financial sector.

In fact, many will argue the detrimental effects of regulation on both the structure of the financial services sector and the real economy have worsened the situation.

Industry reform fatigue and constant legislative/regulatory changes have contributed to many advice practitioners' decision to terminate their careers and exit the advisory sector. It's been estimated that over 6,000 planners (predominantly life insurance specialists) will exit the industry by 2026.

If matters couldn't get any worse, after having been the ultimate beneficiary of industry amalgamation, the major banks are now seeking to jettison their insurance/wealth sector arms.

Australian Financial Services
– an industry that has lost its focus & sense of purpose

The mutual model – why it was successful

A mutual, mutual organisation, or mutual society is an organisation (which is often, but not always, a company or business) based on the principle of mutuality, not too dissimilar to the co-operative model.

However, unlike a true cooperative, members or policyholders of a mutual life insurance company usually don't contribute to the capital of the business by direct investment. Instead, they derive their right to profits and votes through their customer/policyholder relationship.

Hence, a mutual organisation or society is often simply referred to as a 'mutual'.

The mutual existed for the purpose of raising funds from its membership or policyholders which were then used to provide common services to all members of the organisation or society.

A mutual was therefore owned by, and run for the benefit of, its member policyholders. Without external shareholders, there was no need to divert member benefits in the form of dividends – thus maximising the profits and gains for the members.

To ensure the ongoing sustainability, security and growth of the organisation, necessary financing was used for operational purposes. The profits generated were then re-invested for the benefit of the members.

This was a very simple and effective business model that had been successful for nearly 150 years until the 1990s when the industry lost direction resulting in a downward spiral.

The inevitable return of mutual model

Although it's impossible to undo the failures of history – there is hope for the future if legislators and industry could revisit the mutual life insurance model with a modern-day adaption that would restore much-needed certainty, trust and confidence to the life insurance sector.

It's also been said that the efforts of the federal government to bring about change and restore confidence has only resulted in the industry experiencing a state of constant and reactive chaos. The Hayne Royal Commission legacy has shown that the post mutual era has been a disaster and against this backdrop of the major banks and AMP reconsidering their positions, **the re-emergence of the mutual insurance model in Australia could be the answer to the industry's future viability.**

For mutual companies to succeed they need to be aligned with the best interests of their policyholder members. What's more, mutual companies are owned by their policyholders, not shareholders – and that's a very important and crucial distinction.

Mutual companies share their profits with policyholder members, look after their interests and needs first and develop products and services accordingly. This differs from the current bank-owned model that sells and markets products to generate profits / dividends for their shareholders without necessarily benefiting policyholders.

Furthermore, the profits of mutual insurance companies are distributed to policyholders in the form of lower premiums or bonuses on policies.

Two further differentiators to shareholder ownership are 1) mutuals are driven by decisions that deliver long-term benefits to their members as opposed to short-term gains to equity holders; and 2) policyholders can be elected to the board as opposed to shareholder owned institutions.

The Hayne Royal Commission and adverse media coverage have highlighted the depth of reputational damage and how much work is needed to restore the public's trust and confidence in the life insurance sector and industry more broadly.

At the core of the industry's failings has been principle that shareholders' interests are prioritised ahead of those of consumers.

Then there were the revelations surrounding conflicted advice and, denial or avoidance of claims that highlighted the misalignment of internal interests that in turn drove the behaviours that adversely impacted policyholders.

Australian Financial Services
– an industry that has lost its focus & sense of purpose

A horse with two jockeys can't win the Melbourne Cup. This also applies to financial services with the competing interests between shareholders and policyholders.

The interests of the institutional shareholder will always be the priority, whilst on the other hand, the mutual will only have one jockey and priority – the policyholder!

The re-emergence of the mutual in a modern-day format and entity in Australia will be inevitable.

According to the International Cooperative and Mutual Insurance Federation (ICMIF) in its Global Mutual Market Share 10 report released in February, the mutual and cooperative insurance market has been the fastest growing part of the global insurance industry in the ten-year period since the GFC.

- Premium income of the global mutual/cooperative insurance sector grew by a total of 30% over ten years

- The global market share of mutual/cooperative insurers rose to 26.7% in 2017

- 922 million members/policyholders were served by mutual/cooperative insurers in 2017

- 1.16 million people employed by the sector in 2017 – a 24% growth since 2007

In the foreword of the report, Hilde Vernaillen, Chair of ICMIF said, "At this financially volatile time, as consumer trust, consumer spending and interest rates plummeted, the cooperative/mutual insurance sector began to emerge, even flourish, outperforming the insurance industry average and capturing more market share.

"Additional qualitative research carried out by ICMIF during this period suggests that this positive performance is linked to consumers' preference for providers that can demonstrate characteristics most commonly associated with cooperatives and mutuals: trustworthiness, security and service excellence."

Australian Financial Services
– an industry that has lost its focus & sense of purpose

My personal & industry journey to this conclusion

I've often wondered why my life's journey, and chain of chance events lead me to being a part of the Life Insurance sector of the financial services industry in Australia.

After four years of university study I entered the workforce with an Engineer Bachelor Degree only to find myself unemployed after a few short months. Timing could not have been worse as a newly married man amidst one of Australia's worst recessions in 1982 – 84.

It is now with the wisdom of years, and hindsight that I can look back with the realisation of the forces that appear to have conspired to land me amidst an industry and profession that can do, and has done so much good for so many people.

Not just for a few years, but for well over 150 years!

It's now that my career as a financial planner has concluded I feel I have deeper insight into those forces.

What are these forces?

They are greater and more powerful than anything we can make or build. They have shaped all our lives, those we work with and the families we love.

These forces are the core values, deeply held beliefs that are the "unseen forces" that have shaped, girded and driven our individual decisions and those of the community.

These forces that have made us what we are, drive every decision made as individuals, businesses and policyholders – and in the context of financial services what the insurance industry is today.

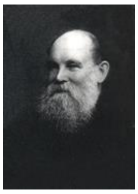
For an individual, company or legislator, cannot for any great length of time make decisions or shape their existence by making decisions that are not aligned with those forces or deepest held core values.

To this end, I recall my very first weeks in the life insurance industry. I remember my manager telling me the story of how the life insurance industry in Australia came to be.

At its most simplistic, when Australia was still in its relative infancy in the early 1800s a Pastor and two businessmen came together with an inspired vision and determination to make it a reality.

Australian Financial Services
– an industry that has lost its focus & sense of purpose

Welsh born David Jones (of the David Jones Store fame) was a foundation director of AMP. According to his friend Rev. W. Slatyer, "*he suffered from an unsuspicious and charitable judgment in giving others with whom he dealt credit for the integrity with which he himself was activated*".



Benjamin Short was Australia's first financial planner in 1847, calling on clients, talking of the need to protect those you love, and collecting those all-important premiums, which have been used down through the decades to provide a multiplicity of benefits that included the economy.

From those humble beginnings, AMP and life insurance industry rebuilt lives and families; paid the medical teams and hospitals for providing care and simultaneously contributed to building some of Australia's iconic buildings and much needed infrastructure that benefits Australians today.

At the heart of the industry's forefathers were values of compassion for their community and others. These pioneering Australians saw the need to create a means for the community to look after itself financially.

They were determined to uphold the dignity of fellow Australians by creating a commercial structure to which the community and businesses could contribute – and these funds used to support financially those in dire need as the result of sickness, accident, illness, disease or death of a spouse or breadwinner.

For those that had encountered a tragedy, the funds could be accessed to reduce financial hardships and emotional burdens of their loved ones.

These industry pioneers were determined to create an enterprise to benefit the community – even though it required taking them away from their own commercial activities and applying their skills to create the AMP and other mutual life companies.

Mutual being the key word i.e. owned by the members for the benefit of members and the broader community.

That is the genesis of the life insurance industry that went onto benefit countless Australians and saved the broader community the financial and social burden of caring for those in need.

It's difficult to match the sense of purpose and reason for being of the modern-day adaptations of the institutions created by yesteryears industry pioneers. It's even harder to observe organisations like the great AMP so far removed from the values of those that founded the industry and the company.

Australian Financial Services
– an industry that has lost its focus & sense of purpose

Take a moment to reflect and compare the logos of those founding companies and the values they espoused in the 1800s to the logos of today – Australian Unity (one of Australia's earliest mutuals), Asteron, CommInsure/Colonial Mutual Life and the AMP.

What values do the logos of 2019 articulate and how many of their executives, boards and financial planners can explain in a few words the values and forces they represent and stand for?

The AMP’s logo of today versus AMP Society logo of 1847 that existed until the 1980s.

The central figure in the statue group is the goddess of Peace and Plenty, holding a palm branch (signifying peace) and a cornucopia (symbolising plenty). The male figure of labour sits to her left and also holds the cornucopia, while the figures of the wife and the child sit on the goddess's right under her palm branch.

Under the statue is AMP Society's Latin motto "Amicus certus in re incerta" (A certain friend in uncertain times)

The contrast and values represented by the two images couldn’t be clearer – and values the industry in general needs to return to.

My last financial planning practice before exiting the industry was steadfastly dedicated to the values of the business motto –

■ Protect those you love ■Enhance the life you live ■ Inform to empower

Although structured differently, more refined and of greater scale, the need for services and products of the insurance industry remain unchanged in 2019.

However, it can be argued that the forces and values of the industry’s founders have faded into distant corporate memory and this is why the industry has strayed so far from the reason it came to be.

But, I sincerely believe, that just as I was taught as an engineering student all those years ago, that the forces of energy are never lost, they just change form. Hence my belief that those values of the past still exist – and although misdirected can be retrieved to once again serve the community as originally intended.

However, it requires industry and policy leaders to reflect and rediscover those same forces of great value that created the industry and provided dignity and financial support to policyholders that suffered unforeseen medical or health crisis.

We can find our way back.

Which leads me to why I joined the industry and take immense personal pride for the service and protection provided to my clients as a professional advice practitioner.

For my family's story is one that sadly would have been far different had my father who suffered from manic bipolar had insurance cover. Insurance would have prevented losing everything and the family left to survive on the chance of the largess of St Vincent DePaul's, churches, friends, food parcels and homes who took me and my sister and brothers in from time to time.

How fortunate we were through these difficult times and to have experienced the kindness and mercy of others.

It has been the insurance industry that has helped tens of thousands avoid such a circumstance over the decades when a loved one, spouse or breadwinner has been lost or incapacitated.

But thankfully for those financial advisers who have worked diligently over many years, sometimes even pestering, encouraging those clients in their care to ensure those they love are spared the financial distress and hardship if confronted by a similar disaster.

These were principles that motivated me to join the industry and provided the sense of purpose for a 35year career in financial services and particular, as a life insurance adviser.

It saddens me immensely to observe the vilification of advisers that have worked all their lives to assist Australians avoid financial hardship as the result of a crisis resulting from an accident, illness, injury or death.

Australian Financial Services
– an industry that has lost its focus & sense of purpose

The vast majority are dedicated caring professionals that have been tainted and blamed for the failings of a few.

Even the remuneration debate about a framework that heralds back to the early days of the industry as a means of making life insurance affordable for the consumer and a viable commercial activity for the advice practitioners has been misguided.

When you tally up the regulatory scorecard since 2001 and the introduction of FSR – the results have been devasting.

The cost of providing professional advice and life insurance has skyrocketed making it an expensive undertaking and as result more Australians than ever before are facing the very real threat of financial hardship as the result of not having the benefit of protection.

Predictions that up to 6,000 advice SME businesses will close before 2026 are on track – and to make matters worse – university graduates needed to replace as the next generation of advisers are preferring NOT to join the industry.

With the major banks jettisoning their wealth / insurance arms and AMP restructuring and downsizing its adviser network – what exactly has been the benefit of the regulators interference?

Although a bleak picture, it is my sincere hope that our industry leaders, politicians and policy makers have the courage to take a step back and see life insurance through another lens – the lens of the great benefit and service the industry has provided – and must continue to do so for the betterment of Australians.

Immense challenges that deserve frank and honest responses to the questions "What is truly in the best interests of the consumer and the nation?"

Australian Financial Services
– an industry that has lost its focus & sense of purpose

Perhaps the quote from American author and political activist Helen Keller says it better…

"The best and most beautiful things in the world cannot be seen or even touched. They must be felt with the heart."