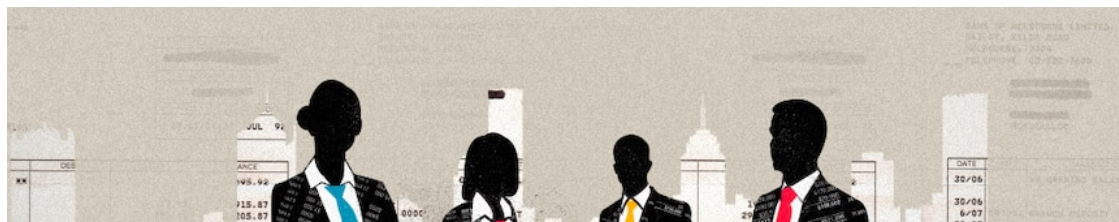


## Banking royal commission has some thinking it's the customer's fault. Here's why they're wrong

By Cristina Neesham

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ABC News chief economic correspondent Emma Alberici explains the commission's aims and the scope of the mission.

After two weeks of testimony in the banking royal commission, we've heard many stories of loss and hardship but not everyone has empathy for those who have found themselves in financial trouble.

"It's all their fault; they should have seen it coming!"

It is a mellow early autumn evening and the pub is not too busy yet.

This is not preventing my neighbour from engaging in a heated argument about the debut of our Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

If you had just joined the conversation and thought he was referring to the service providers, you are in for a surprise: for our determined fellow, "they" are in fact the customers who have lost their savings at the hands of ruthless operators.

It's not that the financial institutions in question are coming out in a better light as a result. On the contrary, by now — the argument goes — it should be basic knowledge among the citizenry that one

should not trust their home and livelihood with the banks.

Whoever does so must be too gullible, too lazy, or simply blinded by greed: "You must be nuts to believe people who just want your money. These 'victims' should have read the fine print carefully and done their research. When enticed to 'get more', they should have resisted the temptation and stopped to think for themselves — if an offer looks too good to be true, it probably is!"

To be fair, there is at least one tiny part of me that finds this argument appealing. I can see why it may attract an audience. Perhaps it is time for a research study to see how many Australians embrace this attitude, go further and disengage from seeking institutional support to secure their financial future.

But deep mistrust is not necessarily a reason to move away from a complex issue and place the responsibility solely on those who have suffered loss. On the contrary, it is a reason to respond publicly.

The royal commission is a direct expression of this need.

While the disclaimer statement on the commission's home webpage clearly explains that its role is not to "resolve individual disputes", its terms of reference are also very clear: to formally inquire and recommend review of service standards, consumer redress mechanisms, internal systems of financial institutions, industry codes of conduct and self-regulating systems, and ultimately the relevant legislation and government policies.

Such an all-encompassing mandate indicates public recognition that  
the root causes of this crisis of confidence are systemic.

Next time you hear a mate in a pub take my neighbour's perspective, here are a few response strategies.

## **Can we rely on experts?**

First, should we believe those we are paying for advice?

Well, the whole point of seeking expert advice is to entrust one's interests in the hands of a professional whose duty of care is to apply their expertise in protecting those interests as a matter of priority.

Should we rely on the advice of our doctor, lawyer or building engineer? After all, we are paying them quite a bit for their services. And for a good reason: keeping us in good health, protecting our legal rights, and making sure our home is structurally sound may require knowledge we do not readily have.

As much as we may hate relying on others for our wellbeing, this is why we live in societies with complex arrangements.

What complicates these arrangements goes beyond meeting individual needs. Trust in professional advice is built over generations, and history plays a crucial part.

Any society recognises professions and professionals on the basis of a tacit or explicit social contract, where each profession undertakes to use their privileged expertise to uphold the public interest in one form or another. This is an overriding principle.

For doctors, the public interest is in maintaining a healthy community; for lawyers, in upholding a functional and trustworthy justice system; for building engineers, in securing safe and sound building structures within the community, and so on.

Public interest and public trust go hand in hand. If professionals act against the public interest, then the community will retaliate by withdrawing their trust, and the social contract no longer works.

Of course, doctors, lawyers and engineers are different to banks, and have a different set of professional obligations. But it's reasonable to have an expectation of professionalism from bank staff and brokers, too.

## **Is the fine print clear?**

Second, is getting the right financial advice just a matter of reading the fine print carefully and doing one's own research?

The vast asymmetry of information and knowledge that exists between the customer and the financial expert these days is the elephant in the room. As the royal commission's hearings are revealing from its very first hours, systemic conflicts of interest are often well hidden from view.

Commonwealth Bank's loan documents, for example, have failed to disclose to customers that brokers were incentivised with bonuses and other forms of reward to sell as much product as possible.

It doesn't take long to figure out who the clients really are and whose interests are being promoted in these sorts of transactions: definitely not the unsuspecting customer, whose needs and risk profile end up being ignored.

Surely, doing one's research could hardly help here. If your mum-and-dad investors already had the knowledge and proficiency to do this sort of research, would they still need professional advice?

## **Are victims greedy?**

And third, on the issue of greed: looking at the facts, most victims are not Gordon Gekko-type mavericks but ordinary people seeking a reasonable home loan or a decent return for their life

savings.

As products do change, and improved investment opportunities do appear from time to time, looking for better returns is not uncommon. But these are essentially conservative investors and their different needs should be well understood and respected by any financial service adviser.

For this client profile it also makes sense to seek advice from the bank they have been with for decades — not only because it has constantly prospered but also because long-term customers have a legitimate expectation to see their loyalty reciprocated.

Now that I have had my day in the pub, I should be feeling victorious.

Yet a shade of sadness is still lingering: when and how have we allowed lost trust in financial institutions to take with it our sense of empathy and compassion for our fellow citizens as well? I am afraid there will be no royal commission for that.

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