Legacy product crackdown proves glacial

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Legacy financial products are a key area of reform that demands attention if the government wants to restore trust and confidence in the sector following a “challenging and difficult period”, the **Financial Services Council** says.

In a letter congratulating newly-elected Prime Minister **Scott Morrison** this week, **FSC** chief executive **Sally Loane** argued a key limitation of financial services laws in Australia was that modernisation of financial products was often written off as either “too difficult” or “too expensive”.

“A comprehensive product rationalisation strategy is extraordinarily overdue and we call on the government to urgently prioritise reform,” Loane told *Australian Banking Daily*.

“The ongoing lack of reform in this area means many consumers continue to be locked into older, more expensive products that don’t meet their needs."

Twelve years have passed since Treasury first released a *Product Rationalisation* issues paper calling for a review of legacy financial products. Recommendations by both David Murray and Kenneth Hayne in their respective inquiries to help clients entrenched in older products have only fuelled concerns over the government's inaction.

James Coyle, chief customer officer of Australian digital advice firm **SuperEd**, told *Australian Banking Daily* there were many legacy products that no longer served the best interests of customers and a comprehensive product rationalisation strategy would be "a terrific step" toward better financial outcomes for Australian consumers.

"I don't believe sufficient progress has been made. We still see a plethora of high cost products and trail commissions so the speed of change seems somewhat glacial," Coyle said.

FSC's Sally Loane said reform would be critical in allowing financial services providers to "close economically inefficient or outdated financial products".

"Reform would enable the financial services industry to more easily update technology infrastructure underpinning financial products, and to introduce a simplified, ongoing process to enable customers to be moved from outdated products to more suitable modern products," Loane said.

But Coyle acknowledged it would not be an easy process, given the various hurdles the federal government would inevitably face.

He said a fair and equitable process in phasing out legacy financial products would be contingent on recognising all parties affected by the proposed changes — the advisers, the institutions and consumers.

"The end outcome must be better products delivering better outcomes for everyday Australians - the capital gains relief and ending grandfathered commissions are two obvious steps towards that outcome," Coyle said.

"The path to get there however is quite bumpy and will have cost and revenue implications for advisers and institutions. Helping smooth that path is important, which is where the government needs to step up."

The first step? Get rid of grandfathering

The **banking royal commission**'s spotlight fell on recurring instances of banking misconduct relating to conflicted remuneration arising from these legacy products and the **Coalition** responded in March this year with a series of regulations to remove grandfathered commissions.

Under the regulations, Treasurer **Josh Frydenberg** said financial product manufacturers would be required to pass through to clients the benefits of any previously grandfathered conflicted remuneration remaining in contracts after January 1, 2021.

This would ensure Australian consumers could access “newer, better and more affordable products”.

Dante De Gori, chief executive of industry group **Financial Planning Association of Australia**, told *Australian Banking Daily* the FPA would support product rationalisation if product providers could demonstrate they were passing on savings to consumers and consumers were not worse off.

Any move toward product rationalisation should include extensive consultation with financial planners via industry bodies such as the FPA, he added.

“Fees, tax and social security are important factors in any product rationalisation project,” De Gori said.

“Millions of clients are in certain products as part of strategic financial plans recommended by financial planners [so looking at] how clients will be impacted is imperative.”

NAB future-proofing with legacy product review

Reports in the press this week confirmed **National Australia Bank** had begun a program to review all of its 300 financial products to make sure each was sold in a consistent way.

The program, led by NAB chief customer experience officer **Rachel Slade**, will also examine the customer experience as well as how fees and charges are applied.

Eva Scheerlinck, CEO of left-leaning peak body **Australian Institute of Superannuation Trustees**, welcomed NAB's news in the wake of the **Hayne** royal commission.

Scheerlinck said genuine reform required a bipartisan commitment by both the retail financial services sector and government to help get Australians out of “poor performing, expensive legacy superannuation products”.

However, any policies the government looks to adopt in product rationalisation processes must not come at the expense of members, she added.

“Successive governments have repeatedly exempted legacy products from law reforms designed to protect consumers,” Scheerlinck said.

“Consumers are in these products because financial advisers receive grandfathered commissions from them. Why would an adviser recommend that a client switch to a better product when the they will lose their commissions?

“Providers are not required to produce product dashboards or even product disclosure statements for legacy products. How can members work out whether they are getting ripped off if they can’t compare returns or fees for their product with a high performing

MySuper product?”

Daniel is a freelance journalist with almost a decade of experience in politics, technology and financial services news.