

Session 60097573

slide question

W3 PBL 5: Take-home Domestic Anecdote of Financial Crisis

Australian Example:

Financial planning in a crisis of confidence and moral hazard.

**Concept check: Define financial planning and a crisis of confidence.*

In the current post GFC (Global Financial Crisis) era, 2009 – present, Australian financial planning suffers from a sector-wide, crisis of confidence. This was caused by numerous and wide spread scandals, **where financial planners lost hundreds of millions of client money.**

- Financial planners of all major banks were involved.

<http://www.smh.com.au/business/financial-planner-lost-millions-for-cba-clients-20101103-17e0j.html>

- Major banks and financial institutions have acknowledged responsibility.

<http://www.smh.com.au/business/comment-and-analysis/banks-rotten-financial-planning-structure-is-teetering-20150416-1mmdgw.html>

- Have paid collective compensation of hundreds of millions to tens of thousands of clients and have been involved in class action law suits. Criminal penalties have also been imposed.

<http://www.theaustralian.com.au/business/asic-win-as-adviser-jailed-for-six-years/news-story/54275d70127027654e34e86942f87050>

The **primary causes** were...

- 1.Financial planners selling products which were in their own best interest, i.e. paying the highest commission, as opposed to recommending products that were appropriate to and in the client's best interest.
- 2.Lack of institutional supervision

Consequently, the government conducted the Corporations and Financial Services Inquiry that resulted in a raft of new and on-going regulation; the **Future of Financial Advice (FOFA) reforms.**

<http://asic.gov.au/regulatory-resources/financial-services/future-of-financial-advice-reforms/>

The current regulation places restrictions on product compensation and tightens the education requirements for financial planners.

<http://www.abc.net.au/news/2015-05-07/big-banks-back-extra-education-for-financial-planners/6453936>

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