CBA's financial planning demerger is a sham to avoid Glass-Steagall

By Richard Bardon

The Commonwealth Bank of Australia is pretending to have voluntarily abandoned so-called "vertical integration" with its plan to spin off a bevy of financial planning and mortgage-broking subsidiaries into a new independent company. In truth it has done nothing of the sort. Not only will the demerger leave untouched other major issues, most significantly the bank's dealings in mortgage securitisation and financial derivatives, which are a danger to Australia's financial and economic stability; but CBA is not really ditching financial planning at all, and will retain the core unit of fraudsters whose criminal malpractice sparked the scandal in the first place. Everything about the CBA demerger plan, including the timing of its announcement via media release on 25 June, points to it being a public-relations exercise to head off the momentum towards a legislated separation of commercial banking from other financial activities, as embodied in the Citizens Electoral Council's "Banking Sector Reform (Separation of Banks) Bill 2018", which Bob Katter MP introduced in Parliament the same day.

According to the CBA media release, the demerged business is to be called CFS Group, shares in which will be assigned proportionally to existing holdings of CBA stock when the split occurs sometime next year. CFS Group will comprise CBA's flagship wealth management company Colonial First State, a "superannuation, investment and retirement solutions platform with over $135 billion of funds under administration", the acquisition of which kicked off the bank's adventures in vertical integration in 2000; Colonial First State Global Asset Management (CFSGAM), with $207 billion under management, whose previously announced spin-off via initial public offering (i.e. stock-market float) has been cancelled; financial planning subsidiaries Count Financial and Financial Wisdom; Aussie Home Loans, Australia's largest mortgage brokerage; and CBA's minority stakes in ASX-listed corporations CountPlus (an accounting, financial planning and business advisory conglomerate) and Mortgage Choice (mortgage broking and, you guessed it, financial planning). CFS Group will be chaired by current CFSGAM Chairman John Mulcahy. CommInsure, CBA's general insurance business, is also under review, with an eye to its eventual sale. "These initiatives will result in the creation of a leading independent wealth management business", the CBA release claims, "and enable CBA to enhance its focus on its core banking businesses in Australia and New Zealand and create a simpler, better bank."

Don't be fooled

The move has been hailed in the media as heralding the end of vertical integration for CBA, and eventually the whole industry. "Commonwealth Bank has rung the bell on vertical integration", business reporter Michael Roddan proclaimed in the 26 June *Australian*, and parroted CBA's line that the bank would henceforth focus on its core business of home loans and savings deposits. Long-time bank critic Sen. John Williams also appeared to buy it, telling the 27 June *Sydney Morning Herald*: "I think what we are seeing here more than anything is the banks saying 'we have stuffed up, we are going back to our basics, we are going back to banking'." Even crusading Fairfax Media business columnist Adele Ferguson wrote in the 26 June *SMH*: "Five years after Commonwealth Bank whistleblower Jeff Morris

The logos of the many companies owned by CBA at the peak of its vertical integration. Photo: CBA

burst onto the scene with explosive allegations of rampant misconduct and conflicts in its financial planning arm, the bank has put up the white flag on vertical integration." Correctly diagnosing CBA's motive, she added: "It means when the royal commission makes its recommendations about vertical integration, it won't be CBA's problem. … As one CBA observer noted, if a limb turns septic you amputate it before the poison spreads. In other words, the decision to amputate wealth was about risk management and offloading it as far away as possible from CBA."

But not so fast—because the CBA media release also states that "CBA's salaried financial advice business, Commonwealth Financial Planning, will be retained by CBA and will form part of its consumer financial services business within its Retail Banking Services Division"; and quotes CEO Comyn that "The ability to provide high-quality banking services *and in-house financial advice* to CBA customers will remain fundamental" (emphasis added). It is hard to imagine how Ferguson, in particular, missed that detail, given that Morris's allegations—which Ferguson herself published in 2013, sparking a national scandal and a Senate Economics References Committee inquiry—*concerned criminal misconduct at Commonwealth Financial Planning*, Morris's erstwhile employer, which according to the 26 June *Australian Financial Review* employs over 480 financial advisors today. The demerger is not the amputation of a gangrenous limb to save an otherwise healthy body; it's a lizard sacrificing its tail to distract a predator, while the scaly critter scurries for cover essentially unharmed—and eventually re-grows its lost appendage, bigger and better than before.

One observer not sucked in by CBA's charade is former Australian Competition and Consumer Commission (ACCC) chairman Prof. Allan Fels, who told *SMH* that CBA's proposed demerger, whilst welcome, "does not remove the need for a ban on financial institutions owning financial advice businesses". Fels drew the big banks' ire back in April, when he wrote in an opinion piece for Fairfax Media that "the banks cannot be trusted to overhaul their profit-driven advice cultures and the Australian Securities and Investments Commission cannot be trusted to effectively enforce those laws", and that therefore "A structural solution is the only way. Financial institutions must be forced to sell off their advisory businesses." In light of the CBA announcement, and with ANZ and National Australia Bank selling off most of their wealth-management assets piecemeal, Fels told *SMH*'s Clancy Yeates on 26 June: "By virtue of these actions, the question of whether legislation is needed is more complex, but I still lean to a legislative solution."

The CEC-Katter Separation of Banks Bill is just such a solution, and the only one that will work.