Cuffelinks
Connecting investors with ideas

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Understand yourself before you understand the market

Jim McKay

"Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria."

This quote from Sir John Templeton, who was referred to by *Money* Magazine as 'arguably the greatest stock picker of the 20th century', highlights that emotional factors such as optimism and pessimism may influence or even drive market cycles and ultimately individual investor experience.

How investors 'behave' can have a significant impact on their overall success as an investor. After all, a market only rises when there are more buyers than sellers, and only falls when there are more sellers than buyers.

Behavioural finance is the field of science that studies how the mind works when it comes to dealing with money. It seeks to understand what factors influence individuals to make certain investment decisions.

This is an introduction to behavioural finance along with some ideas that investors might want to consider to help manage some of the emotions around investing.

Every finance expert knows that Modern Portfolio Theory includes the assumption that investors are rational. Yet as we engage with investors, we know that behind the rational façade lies the emotional and irrational world of individual investor behaviour.

Following are five behaviours which are driven more by emotions than facts, influencing investor decisions and contributing to investment mistakes.

1. Loss aversion – desire to avoid the pain of a loss

   Simply stated, no one wants to lose money. Loss aversion is the pain felt when an investor has experienced a loss in the past, and doesn't want to revisit that experience again. In tests conducted by Kahnemann and Tversky, pain from making a financial loss was proven to significantly outweigh the pleasure made from making a financial gain. For investors, an example is the reduction in share portfolio values experienced as a result of the Global Financial Crisis. The subsequent retention of large holdings of cash in investor portfolios and reluctance to re-enter equity markets, despite strong valuation support and improved market performance, highlights this.

2. Anchoring – holding fast to the past

   Anchoring is the tendency to use a previous decision as the key input to a future decision rather than taking into account new or more relevant information. This occurs not only in the field of investments, but in purchasing decisions of all kinds. The negative reaction of Australian consumers to higher petrol prices might largely be as a result of their previous experience of lower petrol prices, rather than a reflection of the market price determined by the level of supply and demand.

3. Herding – our tendency to follow the crowd

   Market swings are often the most obvious form of herding, as investors pile in or out of investments together. Many will recall the tech bubble in 2000, when investors piled into tech stocks, often disregarding the fundamentals of the investment. Subsequently, as the value of tech stocks retreated in 2001, the herd followed by selling out. Good technology companies with sound businesses were sold off along with those companies with unsustainable business models. The herd moved on and provided professional long term investors with the opportunity to buy excellent businesses at low prices.

   History has shown it is difficult, if not impossible, to time markets. Investors who take their cue from the herd risk buying high and selling low, like during the tech bubble, which is the opposite of the approach they should take.

   Sir John Templeton reflected on this, saying:

   "to buy when others are despondently selling and to sell when others are avidly buying requires the greatest fortitude and pays the greatest ultimate rewards."

4. Availability bias – most recent is most relevant

   A survey conducted by Franklin Templeton Investments in 2010 through to 2012 highlights the impact of availability bias on investors. The survey asked US investors how the stock market had finished the previous year. Whilst 2008 produced a significant negative result for the S&P500, the subsequent years from 2009 to 2011 produced positive years. Yet approximately half or more of those surveyed each subsequent year thought the market had been negative or flat. In the absence of accurate information their brains drew on the information available to them, even though it was no longer current.

5. Mental accounting – the value of money varies with the circumstances

   One of the early researchers on behavioural finance, Richard Thaler, coined the phrase 'mental accounting' to explain how people treat money differently depending on where it comes from. Earned money is often invested more cautiously than unexpected 'bonus' funds from a tax refund, inheritance or lotto win. These 'bonuses' are often splurged on excesses or invested in high risk/high reward investments rather than being allocated to an existing savings and investment plan.

By understanding and recognising that as investors we are not always rational, how then can we invest or advise investors with confidence?

Firstly, try to understand your own biases. What combination of reason and emotion influences your approach to investing? Knowledge of these will help you manage your own responses to different investment experiences.

Secondly, have a long term plan. A financial plan acts as a roadmap and forms the basis of any sound, long term investment strategy. A plan also provides a reference point in times of emotional investing stress. Research shows that investors with a written plan are more successful and more satisfied with their investments.[i]

Thirdly, take time to make decisions. Allowing time to reflect rather than rushing in prematurely and discovering that the buzz often associated with making an investment is not always followed by the euphoria of investment success.

And finally, don't underestimate the value of seeking professional advice and assistance.

For further reading:

1. Franklin Templeton Investments, *Breaking the cycle of Investment Regret*, 2013.
2. Kahneman and Tversky, *Mental Accounting Matters*, Journal of Behavioral Decision Making, 12:183-206 (1999).
3. Dan Ariely, *Predictably Irrational*.
4. The 2012 Franklin Templeton Global Investor Sentiment Survey designed in partnership with Duke University Professor Dan Ariely and Qualtrics.

Footnote i: Ipsos Reid, Value of Advice Survey, October 4, 2011. Based on supporting data from *Canadian Financial Monitor* data.

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Health check for end-of-year tax planning

Ray Cummings

Year-end tax planning checklists have a tendency to look like grocery lists. They can be mildly interesting if they are yours and you are hungry - but otherwise are deadly dull.

It is wise to use the time and effort to conduct a detailed financial review of your affairs. Rather than compiling a shopping list, let's have a look at a process for a year-end review:

- information gathering
- planning and projections
- review

The first part of the process is to gather critical financial information including last year's tax return and current year-to-date income and expenses. The next step is to estimate likely taxable income at 30 June 2013. You won't have all the required information so estimates of numbers like managed fund distributions will be required.

Although it may be harder, it will be useful to project forward to 30 June 2014. There is no point in planning 2013 carefully if it makes the 2014 result worse.

Finally, it is an opportune time to undertake a general review of your insurance, superannuation and investments and to consider your estate planning. After all, if you don't do it now, when will you do it, and you can't do your year-end tax planning in December.

From a tax perspective, the key elements to consider are:

- deferring income or gains until the next financial year
- incurring or maximising expenditure in the current financial year
- attending to any crucial paperwork prior to the year-end such as trust resolutions and minutes or trust deed amendments.

There are some things that simply must be done before 30 June, such as contributions to superannuation, drawdowns of minimum pension amounts or prepayments of interest on an investment loan.

Consider your superannuation contributions carefully. The limits are currently $25,000 per annum on concessional contributions (deductible) and $150,000 per annum non-concessional (non deductible) or $450,000 on a bring forward basis. Failure to comply with the rules could mean that the ATO imposes excess contributions tax.

If you are commencing or paying a pension from your SMSF remember to comply with the pension minimum and maximum rules according to your age before the year-end.

Income and gains

Make sure you understand the rules relating to the time at which income or gains are earned and review any opportunities to defer these until the subsequent financial year:

- dividends and interest income are generally earned when they are paid or credited to a person
- bonuses are earned when they are paid or credited. This may differ from the time at which your employer becomes entitled to a tax deduction
- the contract date is the relevant time for disposal of a capital gains tax (CGT) asset not the settlement date. Accordingly, you may prefer to enter into a sale contract immediately after year-end rather than just before so that the gain will be included in the subsequent financial

year. Likewise capital losses are realised at the time the contract is entered into. You need to actually sell assets to crystallise capital losses.

If you have received employee shares at a discount price you may be required to include the discount in your current year's taxable income.

You may wish to defer disposal of CGT assets until you have held them for greater than 12 months to be able to access the 50% CGT discount.

If you have a family trust you may have beneficiaries turning 18 in the current financial year or perhaps the subsequent financial year. This may impact on your proposed distributions.

For business owners:

- payments received in advance of provision of goods or services may be regarded as unearned income. Even though you have received the cash from your client or customer, you may not be required to pay tax on that amount until you provide the goods or services
- the invoice date is the time at which the income is derived not the time at which you receive payment.

Expenses

Rental property owners may wish to bring forward repairs prior to year end. Remember the difference between repairs and capital expenditure. Repairs are deductible outright but capital expenditure will be eligible for depreciation or capital write off entitlements.

Make donations to your favourite charity, especially if you expect to be in a lower tax bracket next year. Consider giving more if you receive a higher tax deduction.

Although the amounts have now been reduced, collate medical expenses as you may be entitled to a rebate.

For higher income earners (above $250,000 per annum) the non-commercial loss provisions may limit the availability of a deduction for hobby farm losses or other activity unless you obtain a private ruling from the ATO.

For business owners:

- a deduction can be made for warranty claims based on an estimate derived from the history of prior warranty claims
- bonuses can be expensed provided the employee bonus is minuted, even if the bonus is not actually paid to employees until the subsequent financial year
- holders of trading stock (including share traders) are able to value the trading stock at the lower of cost or market value
- a deduction is available for bad debt write-offs provided they have been documented prior to year-end as being bad
- small businesses are entitled to an outright deduction for certain prepayments
- small businesses are entitled to an immediate $6,500 write off for purchases of capital assets.

Action

The essential paperwork which may be needed prior to year-end includes trust deed amendments, dividend declarations, debt write-off documentation, minutes of employee bonuses, trust distribution minutes, pension payments, trading stock valuations and private company loan repayments.

In reviewing your year-end options you should ensure that any action you take will withstand scrutiny from the ATO. This outline has been brief and general in nature, and tax advice should be sought if you are in any doubt about the issues raised.

A final watch out – 29 and 30 June 2013 fall on a weekend so you lose a couple of business days for that last minute panic and for items to hit your bank account. It's a 28 June deadline this year.

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An overview of global fund investment trends

Scott Burns

Morningstar Global Director of Fund Research Scott Burns recently gave a presentation at the Australian Morningstar Investment Conference discussing worldwide managed fund investment trends. The following are the key findings.

Fixed income in favour

The first major trend is that despite the headlines of economic doom and gloom, worldwide managed fund assets are continuing to grow at record levels, up from approximately $US16 trillion at 31 March 2007 to approximately $US24 trillion at 31 March 2013, notwithstanding the interceding global financial crisis. Similarly, worldwide flows to managed funds also remain extremely healthy.

The strongest flows were to fixed income funds, while there have been pronounced outflows from equities funds. Over the year to 31 December 2012, for example, fixed income funds globally attracted an inflow of approximately $US535 billion, while approximately $US125 billion flowed out of equities funds.

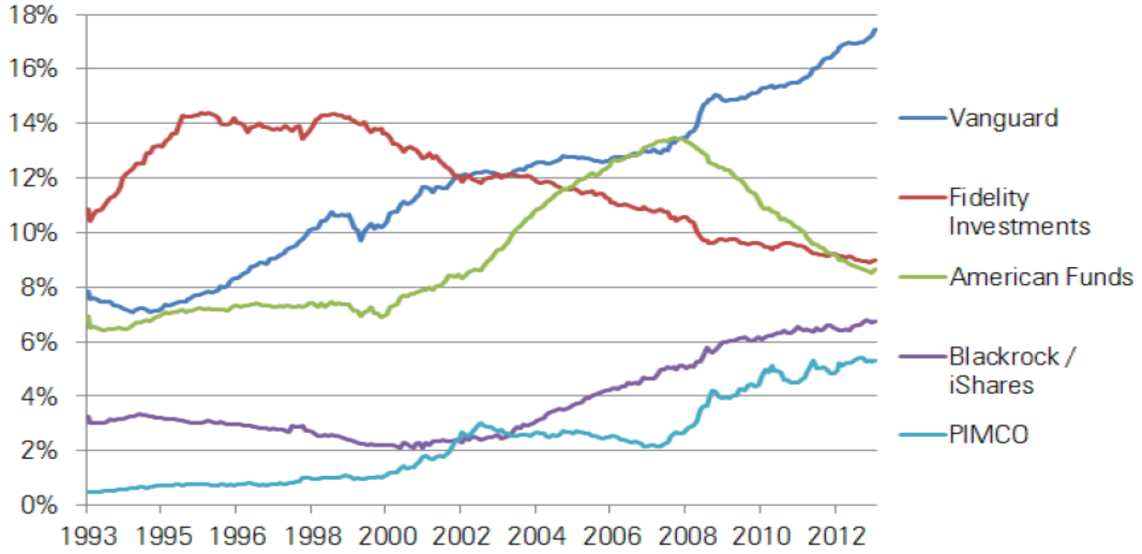
The estimated net flow to the US Fixed Income category in 2012 of $US227 billion was three-and-a-half times greater than 2011's $US64 billion net flow. The increase was even greater in the Emerging Markets Fixed Income category, where 2012's $US60 billion net flow was more than six times greater than 2011's $US9 billion, while the High Yield Fixed Income category attracted approximately $US85 billion in 2012 ($US23 billion in 2011).

The movement of money out of equities fund categories was equally pronounced. An estimated $US38 billion flowed out of the US Equity Large Cap Growth category in 2012, on top of 2011's $US33 billion outflow. The pattern was the same in the US Mid- and Small-Cap fund categories. In the Global Equity category, there were outflows of $US25 billion in 2011 and $US17 billion in 2012. In sum, investors globally have favoured fixed income funds, despite low global bond yields, and moved decisively away from sharemarket exposures, despite recent market highs.

Biggest getting bigger and taking more of the pie

Another key development has been the establishment of a 'winner takes all' trend among global fund managers. The world's largest fund manager, index giant Vanguard, increased its share of global managed fund assets from 9.27% ($US1.36 trillion) at 31 December 2011 to 9.62% ($US1.62 trillion) at 31 December 2012. PIMCO's share over the same period increased from 3.67% to 4.18% (from $US540 billion to $US707 billion). These two fund managers together accounted for a third of all managed fund inflows globally over the year to 31 December 2012, significantly outpacing their rivals among the world's largest fund managers.

Vanguard and PIMCO have over the past 20 years consistently increased their portions of the global managed funds pie. Vanguard's share of world managed fund assets has grown from just under 8% in 1993 to almost 18% in 2012, and PIMCO has grown from under 1% to over 5%. Fidelity's share of global fund assets has fallen from over 14% in 1995 to 9% in 2012.



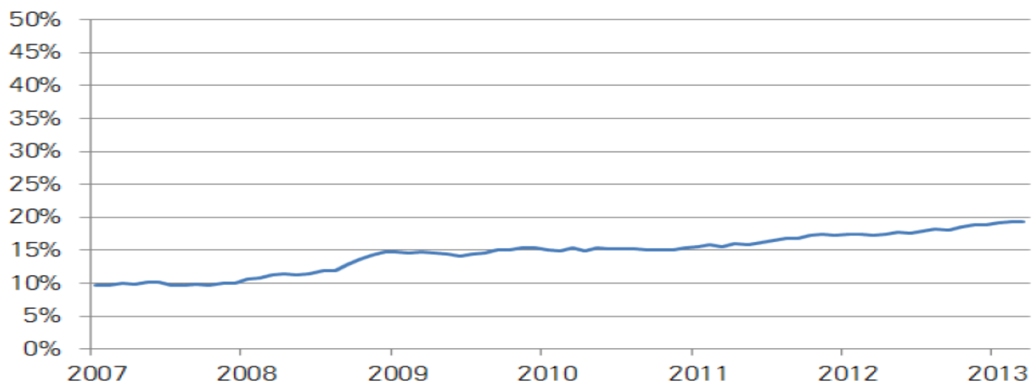
The rise of the passive fund

Arguably the most significant development in the worldwide funds industry has been the surge since the onset of the global financial crisis in assets being invested in passive over actively-managed offerings.

In 2007, approximately $US220 billion was directed into index funds and approximately $US880 billion into actively-managed vehicles. In 2010, however, the approximately $US250 billion investment into index funds was more than three times the $US80 billion placed into active funds, while in 2011, just over $US200 billion was invested in index funds, while there was an outflow of about $US100 billion from active managed fund categories.

Index funds are also steadily gaining ground in terms of share of global managed fund assets – among non-US-domiciled equities funds, for example, index vehicles have increased their share of total assets from just under 10% in 2007 to just under 20% by 2013, as shown below.

Non-US-domiciled index funds share of total managed fund assets has doubled since 2007



Looking across the world regions, indexing is gaining share everywhere except Australia and New Zealand. In 2012, this was the only region to experience a small outflow from index funds. In Asia, index funds' estimated net flow of $US16 billion in 2012 was more than twice the $US7 billion attracted by active funds. This was echoed in Europe, where index funds took in $US23 billion ($US17 billion for active funds), and in the United States ($US259 billion estimated net flow to index funds in 2012 over $US203 billion to active funds).

A noticeably lower proportion of Oceania's managed fund assets is invested in index strategies than is the case in a number of other world regions. Passively-managed assets accounted for 24% of US and 22% of Asian managed fund assets at 31 December 2012, for example, but only 8% of fund assets in Australia and New Zealand.

Other noteworthy investing developments have included moves to incorporate alternative assets into investment portfolios; a shift to more active asset allocation at the overall portfolio level, but with greater use of passively-managed underlying asset class exposures; and a focus on ensuring that active management is truly active – investors are not prepared to pay alpha prices for beta.

Shift away from fund commissions

Another major global trend is legislative and regulatory intervention away from fund commission payments. Australia's Future of Financial Advice reforms mirror developments elsewhere – for instance, the Dutch financial services regulator has banned fund commissions effective from 1 January 2014. In the United States, the proverbial 'invisible hand' of the market is driving commissions towards extinction – the percentage of managed fund assets with loads (commissions) has fallen from around 53% in 1993 to under 30% by 2013.

There are also wider moves towards pan-European managed fund regulation as part of the European Union's Markets in Financial Instruments Directive (MIFID), which aims to harmonise regulation for investment services and increase competition and consumer protection across the EU's 30 member states.

The outcome of this regulatory change has in a number of cases been significant falls in the fees investors pay. Following the Retail Distribution Review in the United Kingdom, for example, the cost of British share funds has on average fallen from 150 to 75 basis points.

Summary of global trends

In summary, the key global managed fund investment trends are continuing asset growth and healthy worldwide flows; a pronounced shift in preference for index over actively-managed funds; the largest fund managers increasing their share of overall managed fund assets; and regulatory moves away from fund commissions. Investors should benefit from resulting greater economies of scale, greater transparency, and lower fees. Australia remains unusual by world standards in our comparatively low share of indexed assets as a proportion of total managed fund investments, and continuing preference for equities over fixed income.

Historical real return outcomes based on current default portfolios

David Bell

In my last article I explained how real returns are the most crucial measure of investment outcomes for an individual saving for retirement. It follows that the crucial measure of risk is the volatility of real returns. Yet most super funds do not explicitly manage for real returns and real return risk. Regulators and industry reviews provide little guidance on this issue and super fund trustees need to provide greater leadership on this important issue.

One possible explanation for the focus on nominal return outcomes is that the Superannuation Guarantee was created around the same period as the RBA introduced inflation targeting. Over this period inflation has been relatively low and consistent. In such an environment the volatility of real returns will be similar to the volatility of nominal returns and so the need to manage real return risk may not be apparent. What we need to consider is the risk that inflation will not always be consistently low. This article explores real outcomes using a much longer data set.

To illustrate, a trivia question: Over the last 100 years, assuming we maintained similar asset mix to that used in portfolios today (30% Australian equities, 30% global equities, 30% Australian nominal bonds and 10% cash), what would have been the worst period for performance of retirement savings? Many of us might say the Global Financial Crisis or the Great Depression, but both answers are wrong. You would have been on the money if you were thinking about nominal returns, but if you are focused on real outcomes, the driver of retirement outcomes, then the story is quite different. In the chart below I illustrate both real and nominal outcomes in terms of drawdown (the largest cumulative loss experienced in account value, both nominal and real). Because this chart only focuses on cumulative losses, it cannot go above zero.

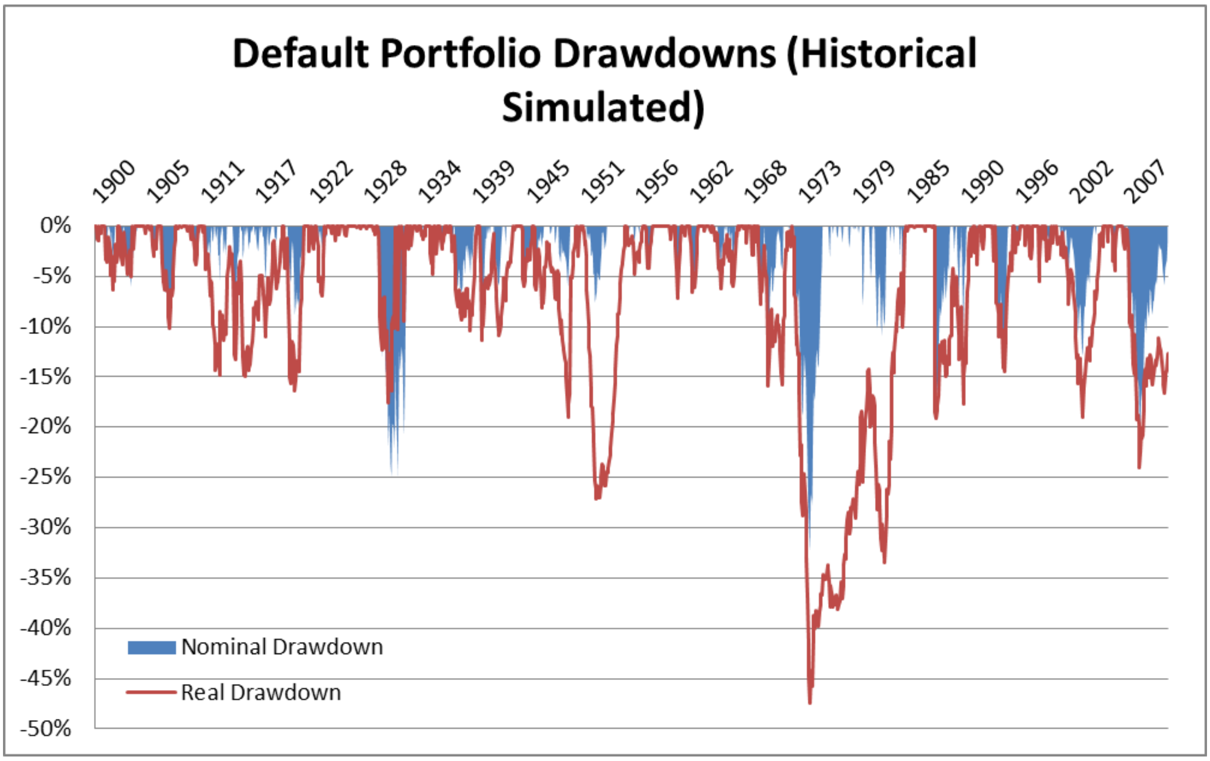


Diagram 1: Simulated historical drawdowns for default portfolios (nominal and real outcomes). Source: Schroders; "Why SAA is Flawed," March 2012, Schroder Investment Management Australia

Diagram 1 illustrates the significant effect inflation can have on retirement financial outcomes. We see this clearly by observing that the worst periods for retirees (measured by the cumulative loss in the purchasing power of their retirement savings) would generally have been periods when inflation was very high and assets failed to keep up in real terms (or worse still, performed negatively in nominal returns). This explains why the 1970's would historically have been the worst period for those saving for retirement. So while the GFC and Great Depression were poor outcomes they are also-rans once prevailing inflation outcomes are considered. The GFC ranked the third largest drawdown in real terms and the Great Depression seventh. Indeed deflation during the Great Depression would have partly offset the loss of purchasing power due to poor nominal performance.

The chart above does suggest a fair amount of volatility. Let's look at this more closely and investigate how a default portfolio would have performed historically. Table 1 below summarises the outcomes.

	Nominal	Real
Annualised Return (pa)	9.16%	4.99%
Volatility of Annual Returns	10.24%	10.84%

Table 1: Historical simulated returns for a default portfolio (1 January 1900 to 31 January 2012). Source: Schroders; "Why SAA is Flawed," March 2012, Schroder Investment Management Australia

It should not surprise that real returns are lower than nominal returns. But remember that the compounding of savings would be much slower in real terms than nominal returns.

It is interesting however to observe that the volatility of real returns is greater than the volatility of nominal returns; not by a huge amount, but higher nonetheless. Why is this? Firstly, volatility of real returns includes the effects of another source of variability, namely inflation outcomes, which is not directly captured when calculating the volatility of nominal outcomes. And secondly, the assets most commonly used in default funds (cash, nominal bonds, Australian and international equities) may not collectively always perform strongly when inflation is high. Unfortunately in this case the numbers don't tell the full story. When it comes to real return outcomes there has historically been a greater tendency for 'bad years' to clump together (historically there have been times when once inflation creeps in it is hard to shake out). We can see this by looking back at the 1970's period in Diagram 1.

This highlights the fallacy of super funds managing nominal return risk: by focusing on the wrong objective (nominal return and risk), members of super funds are exposed to a higher level of retirement outcome risk than they and the trustees of their super funds may think.

Can we rely on the current default portfolio asset mix to reliably deliver real returns? Unfortunately the answer is probably no. While Table 1 suggests that the average annualised real return would have historically been around 5% (before fees and other expenses; though generally this would be regarded as quite an acceptable level of gross real returns), the volatility of outcomes, the observation of outsized losses relative to what the volatility may suggest (indicating that returns may be skewed to the downside), and the observation that periods of bad real outcomes can clump together, create a historical picture where poor outcomes would have been experienced, even over long time frames. This is illustrated in Diagram 2 below where we look at historical rolling ten-year return outcomes.

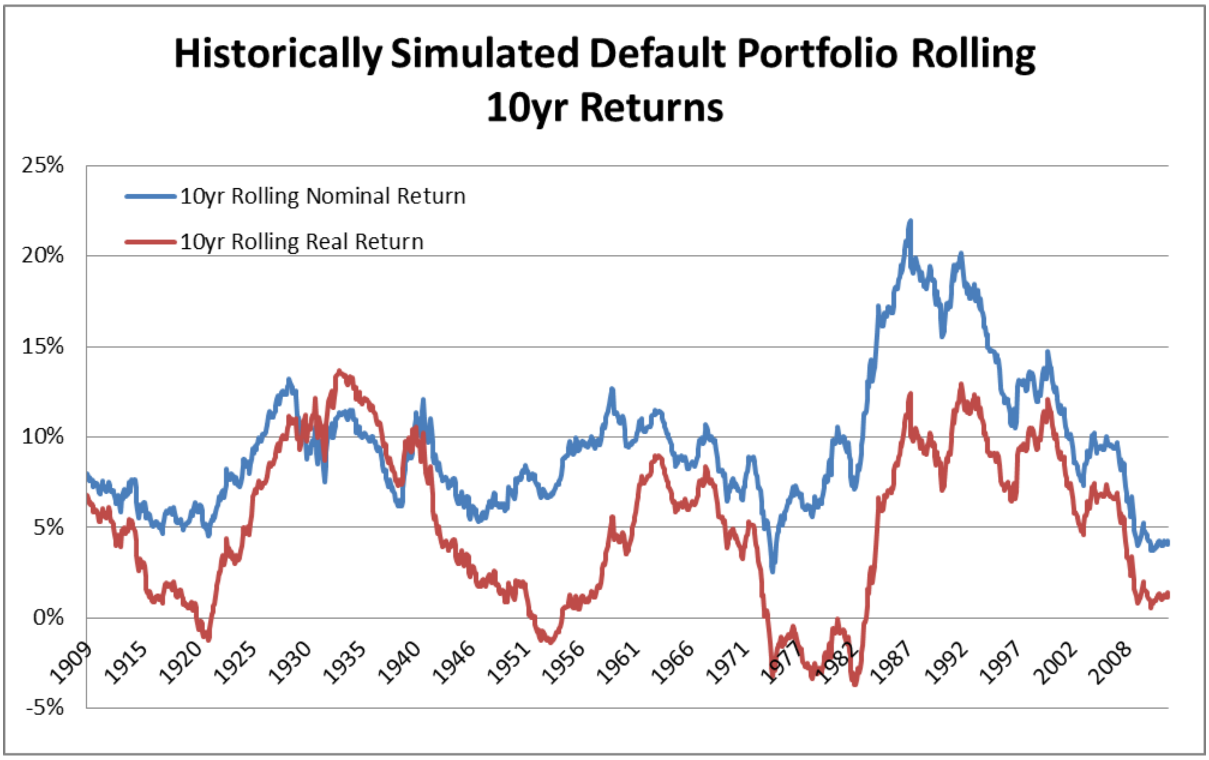


Diagram 2: Simulated historical 10 year rolling returns (nominal and real) for a default portfolio asset allocation. Source: Schroders; "Why SAA is Flawed," March 2012, Schroder Investment Management Australia.

We see that nominal return outcomes over rolling ten-year periods have always been positive and generally above 5%. The same cannot be said for real returns where we see some instance of negative rolling ten-year outcomes. If we think about cohorts of members retiring at different times then return sequencing risk becomes an issue (see *Cuffelinks* 6 March 2013 for an introduction). It is reasonable to question whether this variability in outcomes is appropriate for retirement savings.

In summary, super funds, financial planners and individuals think of the variability of nominal returns as the risk that needs to be managed. Most of us do not manage the variability of real returns, yet it is real outcomes which are most important to those saving for retirement and those living off their retirement savings. No risk can be managed effectively unless it is specifically targeted.

So how can we manage real return risks more directly? This is the topic of my next article.

The Banking and Finance Oath is a tough ask

Graham Hand

Australia's Banking and Finance Oath (BFO) should be a big deal. Its purpose is:

"The Banking and Finance Oath contains a set of commitments that individuals working in the banking and finance industry might agree to adopt and apply as personal principles in their work."

Source: www.thebfo.org

It is in the interests of every banker, wealth manager, fund administrator, financial planner and stockbroker to improve public trust in the finance industry. At its heart, banking and finance rely fundamentally on confidence and trust in looking after another's money.

Although the wording was finalised in February 2011 and it has been possible to take the Oath since October 2011, it was given its formal launch only recently, at a dinner for a large group of senior executives. Everyone agreed it was a fine initiative and there was much satisfaction at reaching this milestone, and then in one conversation around my table, it was driven home to me the types of problem the industry faces. More on that later.

I am a big fan of the aims of the Oath. I put my cards and my career on the table in 2001 when my book, *Naked Among Cannibals, What Really Happens Inside Australian Banks,* was published. It revealed some of the less savoury practices I had experienced in two decades in banking, although I believe the industry has improved significantly since then. If we had thousands of bankers taking the BFO seriously, then change would be manifest.

The BFO has a heavyweight Board, including the heads of AMP Capital, Morgan Stanley, MLC, ASFA and ANZ in Australia. The Oath's wording is laudable:

- **Trust is the foundation of my profession.**
- **I will serve all interests in good faith.**
- **I will compete with honour.**
- **I will pursue my ends with ethical restraint.**
- **I will create a sustainable future.**
- **I will help create a more just society.**
- **I will speak out against wrongdoing and support others who do the same.**
- **I will accept responsibility for my actions.**
- **In these and all other matters;**
- **My word is my bond.**

It is finance's equivalent of medicine's Hippocratic Oath. It should address what the BFO website calls the "trenchant criticism of the recent performance of the global financial system." One of the Board members, former MLC CEO Steve Tucker, told an audience in September 2012 (as reported in *Investor Daily*, 21 September 2012), "Our industry cops a lot of flak. Financial services, globally, has not done so well in the last four or five years. A lot of people have challenged the fact that we actually act in our clients' interest. We have to change that … At the moment it's brand new and we don't know how we'll go."

With so much to gain in improving the public image of the finance industry, why have barely 100 people signed up to it? The four major Australian banks alone have 175,000 employees. The BFO website has a 'News' section with only three items. Every senior executive in the country must want the industry's image improved. The latest Roy Morgan Research 'Image of Professions Survey' for 2013 is summarised in the table at the end and does not make pretty reading for 'ethics and honesty' in finance. While members of the medical profession such as nurses and doctors are rated around 90% 'very high' or 'high', the ratings of various finance professions are:

- Accountants, 49%
- Bank managers, 38%.
- Financial planners, 25%
- Stock brokers, 15%
- Insurance brokers, 13%.

The respected Edelman Trust Barometer 2013 Annual Global Study shows Banks and Financial Services are the least trusted industry globally, behind even Media, Chemicals and Brewing & Spirits. Equally disturbing, while financial services in many countries improved their 'trust score' in the last year, Australia fell heavily from 46% to 38% (a score of one means 'do not trust them at all' and a score of nine means 'trust them a great deal', so 38% is not good).

Ideally, the undertakings in the Oath should be taken as given. Even if it were not a matter of honour and ethics, for large sections of the industry, it is also a matter of law. For example, the Life Insurance Act says that a director of a life company, *"... in the event of conflict ... gives priority to the interests of owners and prospective owners of those policies over the interests of shareholders."*

Similarly, under the Managed Investments Act, when acting on behalf of an investment fund, a Responsible Entity must:

"(a) act honestly; and

(b) exercise the degree of care and diligence that a reasonable person would exercise if they were in the responsible entity's position; and

(c) act in the best interests of the members and, if there is a conflict between the members' interests and its own interests, give priority to the members' interests; and

(d) treat the members who hold interests of the same class equally and members who hold interests of different classes fairly."

It is notable, however, that there is no legal equivalent for banks. Deposit money in a bank at 4% and the bank's obligation is to give you 4%, not somehow to act in your best interests.

How is it possible, then, that public perception of the finance industry is so poor? Obviously, scandals such as Storm Financial and Opes Prime were major setbacks, but there are day-to-day practices which customers find both perplexing and untrustworthy. Back to my conversation at the Oath's launch. Four of us were making small talk when I said something like, "An oath is a big thing. I know there have been times in my banking career when I could not have stayed in the room if I'd signed the Oath."

Sitting opposite was the high profile CEO of a major financial institution, and he frowned at me. "What do you mean?" he said.

"Well decisions are made in banks every day which would struggle to pass the tests imposed by the Oath," I replied.

"I don't have any problems," he said.

“Okay. Let me be more specific with an example. You’re sitting on a bank pricing committee, and you are willing to pay 4% for a new term deposit. But at the same time, you set the rate for rollovers of existing term deposits for a similar term at 2.5%, in the hope that inertia or complacency will mean that your clients don’t notice. It’s worth millions to your bank, so nobody says anything, although you agree to offer the higher rate to anyone who complains. How is that ethical?”

Again he frowned at me. These dinners are supposed to be friendly affairs. “I think that’s fine. We write to our customers, we tell them the rollover rate, and if we don’t hear from them, it rolls over. Acceptance and offer, that’s how we do business.”

“So let me understand this. If a 90-year-old widow struggling to look after her own finances receives a letter from you offering 2.5%, and she does nothing, that’s fine. Whereas if she picked up the phone and asked for a better rate, you’d pay her 4%. Or you offer a bonus rate on a new account for the first 3 months, which anyone can continue to receive if they ring back each quarter, but you don’t tell anyone. And the difference goes into the billions of dollars of profits the industry makes, from which we reward ourselves. And we still charge credit card rates at 21% when the cash rate is 3%.” At this stage, we agreed to disagree, and I focussed instead on my steak.

And so I’m waiting for the Oath to become popular, to reach a critical mass, where individuals stand up in meetings in banks and finance houses across Australia and say, “I’ve signed the Banking and Finance Oath, my name is on the public record, and I’m obliged to help create a more just society, to create a sustainable future, to compete with honour and serve all interests in good faith. I think we should contact every person over the age of 60 who holds their life savings in a savings account earning zero interest and check if it’s really in their best interests.” And see how much support they receive.

Steve Tucker also said in his talk, “What we're trying to do is create a movement of people who operate in this industry to stand up and say personally, 'I'm accountable for how I operate'."

Bring it on.

Roy Morgan Research Survey, 'Image of Professions' 2013

"Very high" or "High" ratings for Ethics and Honesty: All Australians 14+ *Not included in poll

	Occupations	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'07	'08	'09	'10	'11	'12	'13	Dif
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1	Nurses	*	*	*	*	*	86	86	87	86	88	89	88	90	90	94	90	89	91	89	89	89	90	90	**90**	-
2	Doctors	62	70	69	69	65	66	69	72	66	69	74	71	75	80	80	80	79	81	79	82	79	87	83	**88**	+5
3	Pharmacists	76	72	76	79	78	78	79	80	80	80	86	83	83	89	87	86	84	85	86	84	85	87	88	**84**	-4
4	Engineers	56	55	57	58	56	57	59	56	54	57	57	59	64	67	69	69	68	71	72	69	69	71	70	**76**	+6
5	School teachers	57	61	59	62	61	65	69	68	64	71	71	70	74	79	79	77	74	78	78	76	73	76	76	**76**	-
6	Dentists	65	62	64	66	62	60	65	65	60	61	65	64	65	67	71	71	67	69	70	69	68	76	75	**74**	-1
7	High Court Judges	*	*	*	*	*	*	*	*	*	*	61	60	63	65	71	63	64	67	66	67	63	75	70	**73**	+3
8	State Supreme Court Judges	*	*	*	*	*	*	*	*	*	*	61	61	64	66	72	65	65	68	67	68	64	75	69	**70**	+1
9	Police	53	54	54	53	54	56	59	55	55	60	62	62	58	65	64	64	65	65	66	65	62	69	69	**69**	-
10	University lecturers	52	53	56	55	53	54	52	50	52	57	56	54	64	66	64	66	64	67	67	61	60	61	65	**68**	+3
11	Accountants	46	47	46	47	46	42	45	46	43	43	49	45	51	45	50	51	50	48	54	51	50	54	49	**49**	-
12	Ministers of Religion	*	*	*	*	*	*	*	59	55	56	58	56	54	48	48	53	52	51	50	45	44	51	43	**44**	+1
13	Bank managers	50	49	40	44	41	37	39	37	32	36	33	26	30	29	35	35	35	33	33	33	33	40	37	**38**	+1
14	Lawyers	41	37	38	34	32	30	32	29	29	26	34	29	32	30	31	33	32	36	35	30	32	38	30	**36**	+6
15	Public servants	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	30	29	28	28	30	33	**36**	+3
16	Public opinion pollsters	*	*	*	*	*	*	34	33	29	30	35	35	27	29	38	31	31	27	29	23	27	34	28	**33**	+5
17	Directors of Public Companies	*	*	*	20	18	20	20	17	18	17	20	18	17	16	17	23	18	21	22	17	19	24	20	**26**	+6
18	Financial planners	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	25	25	28	26	**25**	-1
19	Business executives	20	19	15	17	16	17	17	17	16	18	22	17	19	17	19	23	15	18	21	16	16	18	18	**22**	+4
20	Newspaper Journalists	9	10	8	7	8	8	8	7	7	9	9	7	13	9	12	12	11	12	14	9	11	11	12	**19**	+7
21	TV Reporters	16	17	15	14	15	16	13	12	11	12	14	12	18	18	17	19	17	13	16	14	16	14	14	**18**	+4
22	Talk-back radio announcers	*	*	*	*	*	*	*	*	*	*	18	14	17	17	21	17	19	17	18	15	19	17	17	**16**	-1
23	Stock brokers	18	15	14	15	15	15	13	16	15	15	19	16	18	14	17	19	14	17	18	15	12	14	13	**15**	+2
24	Union leaders	9	8	7	8	9	9	10	9	12	13	11	12	14	11	15	17	19	16	17	14	15	18	15	**15**	-
25	Federal MPs	15	13	10	10	11	10	9	13	9	7	13	11	16	16	17	20	15	16	23	19	16	14	10	**14**	+4
26	Insurance brokers	13	12	10	12	10	11	10	9	12	11	14	11	14	10	15	15	13	11	15	11	14	12	10	**13**	+3
27	State MPs	15	11	10	10	11	10	12	12	9	7	13	12	14	17	17	19	13	16	20	18	16	12	10	**13**	+3
28	Real Estate Agents	11	11	9	9	10	9	11	10	10	8	11	10	8	8	11	10	10	9	10	10	10	7	9	**12**	+3
29	Advertising people	9	7	8	9	9	8	10	7	8	7	9	10	8	10	13	12	10	9	9	6	8	5	8	**9**	+1
30	Car Salesmen	4	4	3	3	2	3	3	3	3	2	3	3	2	3	5	4	3	4	4	3	5	3	2	**4**	+2

Source: Roy Morgan Research Finding Number 4888, Image of Professions, 2013.

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