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Pursuit of happiness: why IOOF went big on MLC

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IOOF CEO Renato Mota believes good financial advice is undervalued. Picture: Jane Dempster

IOOF chairman Alan Griffiths and CEO Renato Mota believe with a passion that financial advice is a missing and vital component in the Australian social scene.

They have staked the IOOF enterprise on their conviction that financial advice, properly administered, can help overcome many of the social ills of the nation.

And that passion is the key driver behind the remarkable IOOF growth strategy that enabled it to outbid private equity operators to buy MLC. Naturally Griffiths and Mota believe that there are substantial rewards to come from the strategy.

Yet it is a hazardous industry, as we saw in the banking royal commission when IOOF got into trouble leading to the appointment of Griffiths as chairman and Mota as acting CEO in 2018.

Before I explain the unique role of financial advice in the IOOF strategy, the background is important.

Alan Griffiths was a very successful chief executive of Aviva Australia, which incorporated the Norwich life company. Aviva Australia was part of the Aviva global investment management and advice network. Prior to that he worked with the late Peter Smedley at Colonial Life and then switched to Commonwealth Bank after the takeover. He would have seen CBA making all the wrong moves.

In 2010 MLC, under NAB, bought Aviva Australia for an incredible $825 million. MLC wanted Aviva Australia's Navigator platform. Griffiths went on to manage the Southeast Asian operation Aviva and when he stepped down he joined the IOOF board in 2014.

This week a very proud Griffiths headed the company that bought the entire 135 year old MLC operation for just $1.4bn – only $575m more than the Aviva Australia sale price a decade earlier …

But IOOF first had to overcome the 2018 banking royal commission turmoil, which saw IOOF's chairman and CEO step down. Griffiths became chairman and, with his board, decided that Renato Mota was the person to not only solve the IOOF problems but take advantage of the unhappy experiences banks were having in financial advice and wealth management.

Melbourne roots

IOOF had its origins in the international Independent Order of Odd Fellows lodge that started in Melbourne in 1846 – just 11 years after John Batman declared that the shores of the Yarra River were "a place for a village".

In those days there were few social safety nets and the "Odd Fellows" were involved in helping people in financial and other difficulties in the early years of Melbourne. (A similar organisation had started in Sydney a decade earlier).

The organisation became the IOOF friendly society and later became a listed public company.

The seeds for the latest remarkable transformation of IOOF were actually planted in 2016 when it established the IOOF Advice Academy, with the lofty aim of becoming "the pre-eminent training and coaching resource for the financial planning industry".

The IOOF Advice Academy aimed "to create an environment where ongoing financial planning relationships deliver continued mutual value and enable our clients to live their ideal lives and be free of financial concern".

That aim was at the core of the acquisition of the financial planning operations of ANZ and, now of course, MLC .

To support this key strategic aim, IOOF undertook a survey of 521 advised and non-advised clients and discovered that those who receive ongoing financial planning advice experience had :

• 13 per cent greater levels of overall personal happiness.
• 21 per cent overall increase in peace of mind.
• 19 per cent less likelihood to have arguments with loved ones.

Meanwhile those who don't receive financial advice were

• 22 per cent more likely to have their sleep disrupted due to money concerns;
• 15 per cent more likely to feel stress and anxiety and
• 11 per cent more likely to feel concerned about their finances.

Griffiths and Mota tell shareholders: "Advice also extends beyond measurable financial gains, to improved physical health, stronger relationships and personal happiness. ".

Now step back. When you are selling a "personal happiness" service then you are in an entirely different market arena than simply telling people where to place their money. And that leads to different charging rates depending what clients want and can afford. Producing products for advisers is an add-on business but not the core because advisers can recommend other approved products. And with modern systems you can watch that your advisers are not plugging "Hopeless Oil NL" or similar.

True advice

If we go back a generation this was the core skill of MLC, AMP, Colonial and National Mutual. The life insurance agent was a family friend and adviser. He (there were few females) charged high fees (commissions) and sold only their own products. But the fees and the premiums were tax deductible and the level did not seem to matter because it was a different relationship.

Banks never cultivated such personal relationships – they were lending money. And the newcomers, the industry superannuation funds had no advice culture. Their money had come too easily. They are gradually rectifying the gap, which was partly filled by self-managed funds. AMP was the only one of the old life offices out of bank control, but it lost its way. It now has an internal management war. If it's not sorted out in the next year or two Griffiths and Mota will do it for them.

But for the next two years Griffiths and Mota have a very big task to wake up the dormant MLC and head it in a direction akin to its history.