Putting your trust in the trustee to do right thing

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One of the great surprises of 2018 was the discovery, via the royal commission, of the cavalier way life offices and banks were treating their customers.

In many cases, the systems of the organisations did not pick up inaccurate charging, lack of care in trustee obligations and other mistakes, until the accumulation of large amounts owing to customers. By then, it was a major problem and management was too slow in addressing and making public those problems.

But one area that escaped scrutiny was the trustee companies, even though their activities are similar to life offices and the wealth managers.

This week I received correspondence from an

correspondence from an
accountant with an impeccable reputation, describing his personal experience with trustee companies. The condition was that I did not publish his name or that of the trustee companies. But I was confident with the facts and what happened in this trustee company situation looks very like what happened in the life and banking businesses, where the organisations were not looking carefully at what they were doing to customers.

Of course it is possible that what happened to this accountant was a one-off. But it doesn't look like it.

This is the story. Some 15 years ago a person died and left a substantial amount of money to his relative, the accountant. It was to be administered by a trustee company.

The journey started well, with the trustee company looking at the interests of the beneficiary and structuring a portfolio with that in mind. But sadly, that trustee was taken over by another company and the client got lumped into a mass production exercise.

In fact, no one in the trustee company bothered to check that it was in fact a co-trustee. They never spoke about investment strategy to the other trustee, who happened to be the accountant beneficiary.

The accountant was working long hours and thought he could trust the trustee company.

The trustee company made changes to the portfolio without reference and returns slumped. In fact, what looks to have happened was that the exercise was designed to maximise the trustee company's returns.

A management charge of just under 1 per cent was levied, in accordance with the Trustee Act. But the big money came when, after theoretically selecting the investments that most suited the beneficiary, the trustee decided the "best investments" were those run by itself.

And the funds run by the trustee charged another level of fees that were not disclosed to the co-trustee/ beneficiary. Not surprisingly, the fee-plagued returns were low.

In other words, the trustee company was not doing the job the original person had

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entrusted it to do. Yet it was charging sizeable fees. I have no doubt that one reason was that the good trustee was taken over and its trusteeships were put on a production line.

I am sure that many people have had wonderful experiences with trustees, and it is unfair to pick out just one bad example. But as we have found with the life office and the banks, when an organisation treats one customer on a mass basis and gets it wrong, it is rarely a one-off event.

The good news is that the trustee company looks like it has been watching the royal commission and appears to understand that what it has been doing is no longer acceptable.

The trustee began talking to the co-trustee and is even recommending other funds. And most surprising of all, there has actually been a discussion over the needs of the beneficiary. Trustee companies need to be aware that they have escaped scrutiny and need to look around to see how many of their clients are like the person who approached me. My guess is that there will be a lot of them.

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