



## **MEDIA RELEASE**

22 April 2015

### **FSC Statement on FSI Submission to Treasury**

The Financial Services Council today released its submission to Treasury on the final report of the Financial System Inquiry.

Sally Loane, CEO of the Financial Services Council said: “The Financial System Inquiry has proposed a blueprint for the future of Australia’s largest industry, financial services.”

“The FSC supports reforms to enhance the competitiveness of our financial services sector and to turn it into an export industry for Australia,” Ms Loane said.

### **KEY FSC RECOMMENDATIONS**

#### **1. Financial Advice**

##### Competency Standards and education

Ms Loane said: “The advice industry as we know it today must, and is, being transformed, thanks to no less than five recent major reviews which have left no doubt as to what needs to change.”

“The sector will evolve into a profession – as it must. Consumers must receive high quality outcomes and, we need to maintain public confidence in the financial services industry. The FSC supports reforms which will deliver higher standards for financial advisers and the advice sector.”

“It is critical to have an independent body to develop the right framework for higher competency standards and new educational requirements for advisers. This would complement ASIC’s role of enforcement in the advice industry.”

**The FSC has recommended:** the establishment of an independent body which would include:

- Representatives from ASIC and the Tax Practitioners Board – to ensure integration of the educational requirements for tax (financial) advisers and financial adviser/planners. Currently there are two separate frameworks – there should be one;
- Education providers with knowledge of financial advice;
- Experienced individuals from the industry/advisers; and
- An independent chair.

#### **2. Funds Management**

##### Trade and Export

Sally Loane: “As resources prices fall and manufacturing continues to decline, Australia’s funds management and financial services expertise could become a major export opportunity.”

“Mark Johnson’s 2009 review, *Australia as a Financial Centre*, is unfinished business. Currently the proportion of funds sourced from overseas is less than five per cent of the \$2.5 trillion in assets managed here in Australia.”

“While this has been growing, there is the potential for an exponential increase in foreign sourced funds if the right policy settings are implemented. These would enable our funds management industry to enter the Asian markets particularly China, Korea and Japan, with which we have Free Trade Agreements.”

**The FSC has recommended:** cooperation between regulatory agencies should be legislated and international competitiveness issues included in their mandates and that an ASIC commissioner be appointed to specifically deal with international trade issues.

#### Fees

Sally Loane: “The FSC has taken issue with some of the assertions made by the Murray report regarding fees. The Australian funds management industry is highly competitive and has very low fees on a global scale.”

**The FSC has recommended:** that no future policy decisions are based on the incorrect assertions on fees in the interim and final Murray reports.

### **3. Life Insurance**

Sally Loane, CEO of the FSC said: “There were six recommendations on life insurance in the Murray Review including that the interests of financial firms need to be better aligned with consumers by the raising of industry standards, enhancing the power to ban individuals from management and ensuring remuneration structures in life insurance do not affect the quality of financial advice.”

“Our response is in context of the Trowbridge process, which the FSI stated should be taken into consideration.”

“Last October, the FSC and the AFA formed the Life Insurance and Advice Working Group to find solutions to the structural issues undermining trust and confidence in the industry raised in an ASIC Report which found that high upfront commissions directly correlated to poor advice, and highlighted the misalignment between incentives and distribution channels.”

“Former APRA member, John Trowbridge was appointed independent chairman to conduct an independent review and to make recommendations for industry reform.”

Assistant Treasurer Josh Frydenberg made it crystal clear to the life insurance industry at a recent breakfast when he said: “appropriate reform (to life insurance), made as soon as possible, must be led by industry. Industry should not force the heavy hand of government to act.”

“We have set a timetable of six weeks to respond to Trowbridge and to develop a workable solution for the industry which addresses the issues ASIC identified and creates an environment where more Australians get proper insurance cover.”

“Our process is underway and we are on the home stretch.”

**The FSC has recommended:** The Parliament continue its support for the independent process, led by independent chairman, John Trowbridge, which has recently concluded.

### **4. Superannuation**

#### Choice of fund

Sally Loane: “The FSI report put choice and competition at the centre of its recommendations on superannuation, strongly endorsing the principle of a consumer’s right to choose their fund in a compulsory system.”

“The FSI recommended that all individuals be allowed to choose their superannuation fund. We support this important reform.”

“Many people covered by enterprise agreements and awards must use the fund chosen for them. To increase the downward pressure on fees, all APRA-approved MySuper products should be eligible default funds for Australian workplaces. All employees should be able to exercise choice of fund.”

“If Australians are forced to save a portion of their salary for 40 to 50 years they must be allowed to decide who will be the custodian of their money.”

**The FSC has recommended:** All Australians be allowed to select their own superannuation fund.

#### FWC process

Sally Loane: “The Financial Services Council wants to see the superannuation system decoupled from the industrial system – this means opening up the default superannuation market to retail MySuper products so they can compete with industry funds; and it means removing the Fair Work Commission from the fund selection process.”

“The MySuper default sector already has a quality filter. APRA approves MySuper products as meeting the legal consumer protection and performance requirements which are expected of a default superannuation fund.”

“By allowing all APRA approved MySuper funds to compete for default superannuation in an open market, competition will be achieved and fees can be driven lower.”

**The FSC has recommended:** The Government open the default superannuation market to competition by allowing any APRA approved MySuper product to compete to become the default fund for any workplace and for the government to remove superannuation from the industrial system.

#### Governance

Sally Loane: “Independence on superannuation boards will create mergers and more operational efficiencies in superannuation. In our view, the most efficient way to drive mergers is to ensure super fund trustee boards have independent directors.”

“Independent directors, acting in the best interests of their members, would be more likely to force mergers of smaller, underperforming funds, creating scale and increased efficiencies and lower costs in the sector.”

**The FSC has recommended:** A majority of independent directors be required on superannuation boards with a robust test of independence.

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#### **About the Financial Services Council**

The Financial Services Council represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, licensed trustee companies and Public Trustees. The Council has over 120 members who are responsible for investing more than \$2.5 trillion on behalf of 11 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the third largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.