Online article by FSC Leaders Summit Media Partner Financial Standard

2016 FSC Leaders Summit

The Financial Services Council's 2016 Leaders Summit showcased the industry's willingness to improve and self-regulate in the face of regulatory uncertainty.

If there was one key message to take away from the Financial Services Council's 2016 Leaders Summit, held at the Melbourne Convention and Exhibition Centre, it's that the financial services industry is ready to take on the mantle of self-regulation while policy reform languishes in an unstable Parliament.

Which isn't to say that the conference was purely about reacting to government turmoil - even if was held in the shadow of the hotly-contested 2016 federal election. Major themes were the future of superannuation, the need to engage younger investors at every step of their working lives and the undeniable benefits of diversity in corporate governance.

FSC names new chair

Financial Services Council chief executive Sally Loane kicked off the conference by naming the organisation's new chair.

Loane said that outgoing chair Greg Cooper would be replaced by Perpetual chief executive Geoff Lloyd. CBA Wealth Management group executive Annabel Spring has been appointed deputy chair and ANZ Wealth Australia managing director Alexis George has been appointed to the FSC board.

Commenting on Spring's appointment as deputy chair, Loane said: "Annabel has been a valued contributor to the FSC for a number of years and is well respected across the industry, particularly for her determined efforts to promote policy to close the superannuation gender gap."

After Loane welcomed Lloyd to the stage, Lloyd thanked Cooper for his contributions to the organisation and for "steering it through its most difficult period." He also noted that this was the first industry body "in any sector" to meet after the 2016 Federal Election.

"There is important work to be done with the industry and with government. We will be working hand-in-hand over the next few months to ensure the best outcome for our clients," Lloyd said.

"We at the FSC have been doing this for two decades now. We fought for choice in superannuation, the abolition of commissions, the Future of Financial Advice," he added.

"This is now Australia's largest industry. We employ over 450,000 people. We have a responsibility to grow the Australian economy by growing this industry."

The quote

For heaven's sake, move forward with the recommendations of the Johnson Report. It was written in 2009.

"We were wrong about super"

Lloyd, in his new role as FSC chair, went on to discuss how the superannuation industry could tackle engagement with younger members and the "retirement income dilemma".

Speaking on a panel, he said: "The industry was wrong to sell super as a great way to invest. It's a great way to save. Investment should have been a different piece."

Reflecting on fellow panelist and UniSuper chair Chris Cuffe's comments about how the superannuation system was "never meant to totally replace the Age Pension," Lloyd said that there was little the super industry could do to solve the fundamental problem of Australians not having enough income in retirement.

"We need to encourage the mass affluent to save. There's no way around it. Not just because they'll be better off, but because it's crucial to the economy as it supports what is now Australia's largest industry."

Lloyd advocated raising the super guarantee to the original Keating-era target of 15%, noting how long it took to get to 9%. "And we're still a long way away from 12%," he added.

The final panelist, SunSuper chief executive Scott Hartley, said it was unlikely the SG would ever be raised that high, as it is a "cost to business. It's unrealistic. The reality is we need to encourage our members to save."

Part of doing this, Cuffe argued, involved improving super member documentation beyond the "appalling gobbledygook" it currently distributes.

"That's not going to mean anything to them," he said.

"Don't bother focusing on lump sums - it doesn't help. Show them what that lump sum translates to in terms of an income and give them an incentive to increase that income."

No more inquiries

Loane later discussed the $3 billion "traffic jam of financial reform" the industry has faced, advocating four-to-five-year government terms in the process.

She slammed the number of "substantial" reforms to which the industry has been subjected over the past seven years - 14, by her estimation. "And these major inquiries each led to subsequent reviews and inquiries of inquiries," she added.

Loane debuted new findings from Tria Investment Partners at the conference which showed that the past five years of reform have cost the industry $2.75 billion - costs, she noted, which were passed down to consumers in the equivalent of $105 per superannuation account each year.

"The previous Parliament passed a difficult climate for evidence-based reform. The 45th Parliament mustn't make the same mistake," she continued.

FSC FINANCIAL SERVICES COUNCIL

She said the first priority over the next 100 days for the new Parliament should be passing the financial services reforms "already in the legislative pipeline," including the life insurance reforms.

Referencing the recent Brexit referendum, Loane argued that London's status as a newly independent financial centre could allow it to have a much stronger relationship with Beijing, which she noted was closer to the UK than Australia.

She said that in order for Australian financial services to remain competitive, it was crucial that Parliament pass the FSC-backed expansion of collective investment vehicles "to include corporate and limited" so that Australia could effectively export what is now its largest industry.

She added: "For heaven's sake, move forward with the recommendations of the Johnson Report. It was written in 2009."

ASIC needs to focus on prevention, not cure

Tying into Loane's speech were Affinia chair Steve Helmich's comments about ASIC needing to work directly with the financial advice industry and develop more proactive regulation.

On a panel, Helmich said that ASIC's role is to ensure favourable customer experience based on compliance, while the "fiduciary side" requires industry self-regulation.

In order to avoid a disaster like Storm Financial, he continued, there needs to be both better industry accountability and regulation that addresses problems before they manifest.

"Even when suspicions came up about Storm, they'd just wheel one of their clients in before a judge who'd say, 'No, I'm very happy,'" Helmich noted.

"We can't keep having miscreant planners running from licensee to licensee. Often you'd see an adviser joining a new licensee after they'd been forced out of five others. And, of course, there's accountability on the licensee, too, which is why ASIC needs to make it more difficult to get a licence in the first place. We need to get rid of licensees of last resort."

Helmich suggested, for example, requiring advisers setting up new licences to "do a desk audit of six pieces of advice they've given in the last year."

Another panelist and ClearView managing director Simon Swanson agreed with Helmich, saying, "Cut-price licensees can't be allowed by ASIC. They need to be held to a higher standard."

Swanson continued: "Running a listed life insurance provider isn't an easy task, but I'm glad I'm at least not ASIC. They have a very broad remit. I'd agree they're underfunded and need more power, but even if their powers were expanded and they were given more funding, it's still an impossible situation, which is why the industry needs to work cooperatively with the regulator.

"There needs to be more focus on dismantling the inherent problems of the vertically-integrated advice system: licensees are spending billions on legacy systems, institutions are buying up advice businesses at a loss to prop up distribution and saddling them with highly restrictive APLs."

Swanson expressed his support for the FSC's life insurance code of conduct, because it was putting an emphasis on internal accountability.

"We have to admit that as an industry, we only change when we're slapped with enforceable undertakings and reforms. There are too many aspects of this industry that are a legacy of the 70s and 80s - volume-based payments, shelf-space fees and so on."

The panel, which also included Minter Ellison partner Richard Batten, unanimously agreed on the proposal to remove ASIC from the Public Service Act so that it would be less restricted in its hiring practices.

A live poll conducted at the conference showed that nearly 80% of participants felt ASIC did not have the skills or expertise to be an effective regulator.

O'Dwyer says life insurance back on the agenda

Encouragingly, after being stuck in what Loane described as "legislative limbo," Minister for Revenue and Financial Services Kelly O'Dwyer said the life insurance reforms are back on the agenda.

O'Dwyer noted that "too often" Australians have received bad or inadequate financial advice on life insurance which has prevented them from achieving "financial security in times of need."

The problem, of course, was that the government's reforms for the industry were before the Senate when the federal election was called, allowing them to lapse due to prorogation. O'Dwyer acknowledged this and said restoring the reforms was a priority for the new Turnbull government.

She added that the government will be working with ASIC following its investigation into CommInsure "so as to determine whether those issues are indicative of wider problems across the life insurance sector."

On the issue of superannuation, O'Dwyer reaffirmed the government's commitment to its formally-defined objective for the super system - that is, "To provide income in retirement to substitute or supplement the Age Pension."

That meant, she clarified, that super shouldn't be used "to accumulate unlimited wealth to pass on to the next generation," alluding to the Coalition's controversial $1.6 million accumulation cap.

"Super tax concessions need to be sustainable. We will soon be releasing exposure draft legislation and will consult on this issue," she said.

Focus on older men will kill financial planning

On another panel, Affinia head Marcus O'Sullivan discussed some of the structural issues in financial advice beyond life insurance remuneration, arguing that the over-representation of over-50 men in financial advice spells doom for the industry.

He said the severe lack of diversity in financial planning was a major hindrance to the reputation - and survival - of the profession. "The reality is that everyone benefits from financial advice, but we're not accessing them because we're not representing them," he said.

He added that a tokenistic approach to diversity won't cut it, either. He highlighted his time as executive director, life risk at Millennium3 Financial Services, which bought the business "SuperWoman" to create a financial planning business staffed by women which served female clients exclusively.

He explained: "It didn't work at all. We ended up selling it, and the name is now being used by a shop that sells superhero costumes.

"The reality is you need diversity across the board, in your clients and your staff."

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The quote

The reality is that everyone benefits from financial advice, but we're not accessing them because we're not representing them.

Fellow panelist and Financial Planning Association chief executive Dante De Gori also emphasised the need for diversity, noting that currently, the FPA's Certified Financial Planner designation represents around 5,600 planners, just 20% of whom are women and only 131 under 30. He said there was only one under 25.

He admitted that financial planning wasn't perceived as a "glamorous" profession: "Boys growing up don't want to be advisers; they want to be investment bankers.

"We haven't articulated our profession very well, especially to young people. We have to make clear financial planning is about more than portfolios and investment returns. It's about managing debt, reaching life goals and dealing with hurdles as they come up."

An important part of doing that, O'Sullivan added, was moving as far away from a legacy "product mindset" as possible.

"This industry was built on product sales. We all need to move away from that. Less sales, more strategy. I'm tired of getting post-traumatic every time I see the AFR on my doorstep."

Diversity isn't going to a Chinese restaurant

Speaking more broadly on the theme of diversity, PwC partner Ken Woo said on a panel that diversity in corporate governance means more than the board of directors going to a Chinese restaurant now and then.

He acknowledged a natural bias in the recruitment process where "you find people who look, think and talk like you," but said that employees from culturally diverse backgrounds won't feel capable of giving their best to an organisation "when the board of directors is a bunch of old white blokes who go out for a Chinese dinner and think they're into cultural diversity."

New FSC deputy chair Alexis George, also on the panel, agreed, recalling a previous employer who told her, "It's not about diversity of people, it's about diversity of thought."

"But what kind of 'diversity of thought' are you going to have when you're all white Anglo-Saxon men who all went to the same schools and live in the same areas?" she asked.

Fellow panelist, race discrimination commissioner Dr. Tim Soutphommasane, added: "There is still definitely an ethnic and cultural profile as to what management should look like," noting that while roughly 30% of Australians come from a culturally diverse background, just 5% of leadership on the ASX 200 does.

"We have to move past this myth and excuse of living in a 'meritocracy'. A meritocracy only works when there's a level playing field," he explained.

Both Soutphommasane and FSC chief executive Sally Loane, who chaired the panel, advocated "de-identifying" CVs - that is, removing names so as to prevent any unconscious cultural bias.

George added that there are specific issues in Australian financial services where performance will ultimately suffer if there isn't a focus on cultural diversity - for example, understanding the Asian businesses companies will be dealing with.

She said: "In my experience, there is no 'Asia'. There are different countries, different cultures and different ideas. How are we ever going to understand and work with those differences if we can't appreciate and represent them in our own organisation?" **FS**