A challenge for the 45th parliament – ensure financial services regulation is 'fit for purpose'

By Sally Loane. CEO Financial Services Council. As published in The Australian, 21/07/2016.

The cost of reform, review and re-review over the last five years into financial services, the largest sector in the Australian economy, is a staggering $2.75 billion.

Persistent political change has contributed to this cost of reform. Over the same five year period during the terms of both Labor and Coalition governments, financial services has experienced 13 different ministers in the treasury portfolios, as well as four Prime Ministers. The Senate's cross bench increased from seven to 17 senators during this period.

New research by independent consultancy Tria Partners for the Financial Services Council shows that regulatory reform costs of $2.75 billion to date will rise to $3 billion once reforms currently before parliament are implemented.

This translates into increased costs for consumers. Tria estimates the average cost of reform is $105 for every superannuation fund member.

The financial services industry has been under intense scrutiny for the better part of a decade – with 14 different reviews and inquiries examining financial advice, superannuation and life insurance. Many of these reviews have been subject to further follow up inquiries. The current and ongoing Productivity Commission review into superannuation is a review into the recommendation of an inquiry that stemmed from a previous Productivity Commission review.

This scrutiny of the heavily regulated financial services sector is warranted, of course. Financial services is the largest contributor to the Australian economy, contributing 9.3 per cent to our national GDP, and plays a crucial role in insuring and building the wealth of ordinary Australians. Compliance, regulation, scrutiny and reform are critical in a sector that has responsibility for consumers' financial futures, life insurance and retirement savings.

The constant political change and the plethora of reviews and inquiries, have however, combined to deliver a patchwork of reforms, regulations and standards, some of which have been legislated, some are still before parliament and waiting to be implemented, and some are still under development.

Settled consumer reforms, such as the previous government's Future of Financial Advice laws, are only now being tested, with ASIC recently announcing its first prosecution of an advisor dealer group over the alleged breach of the new best interest duty that is placed on financial advisors.

Other important consumer reforms, such as higher education standards for financial advisors, the reduction of commissions on life insurance products and legislation guaranteeing choice and competition in superannuation funds for consumers, are yet to pass parliament.

This lack of progress – partly due to political change and churn and a more diverse and fractured Senate cross-bench, and arguably to our short, three year terms - is costly. Uncertainty over final legislative arrangements delays investment and diverts managerial attention from creating value for consumers, and other countries are moving ahead of us particularly in the export of financial services.

The challenge for the 45th parliament is to ensure that the regulations they debate and implement are 'fit for purpose' – that is efficient, targeted and based on sound policy.

The pathway for a consumer focused financial services industry has been clearly laid out by the recent, thorough reviews– including the Financial System Inquiry, the Cooper Review, the Trowbridge review of the life insurance industry and countless parliamentary committee inquiries.

Soon we will have spent nearly $3 billion getting to this point. We cannot afford further delays, or further reviews, we need the new Members of Parliament and Senators to put their commitment to a healthy, functioning system into action.

We also have to properly resource the regulators so there are no excuses. We believe in regulation that is strongly enforced. Finalising the reforms and supporting them with stringent enforcement will be essential. We cannot say we need new laws when we haven't enforced the old laws.

Accordingly, a time consuming and costly Royal Commission into the financial system would undoubtedly delay important consumer focused reforms. It should not be considered. It is a last resort measure that doesn't take into account the fact that reform is well underway – even if we are still a long distance from the end. Passing the current set of reforms which are still in the legislative pipeline from the last parliament is crucial to the national interest, for economic growth and for greater consumer benefits. It is core business which must be swiftly finalised.

ENDS.