



FINANCIAL SERVICES COUNCIL
POLICY PRIORITIES
2016



Who and Why

This publication outlines Financial Services Council's (FSC) policy priorities for the next Parliament.

FSC has over 115 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and private and public trustees. FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

As the peak body for financial services, FSC advocates on behalf of its members for policy outcomes which enable the sector to deliver innovative, flexible and consumer-focused products and services.

The financial services industry is the largest industry in the Australian economy. It has also been growing strongly in the past two decades and, in spite of the global financial crisis, remains larger and more stable than the mining, construction and manufacturing industries.

The industry's gross value added to GDP is 9.3 percent, it employs over 450,000 people and manages \$2.7 trillion on behalf of more than 11.5 million Australians – more than the capitalisation of the Australian Securities Exchange and larger than Australia's GDP.

Given the size of the financial services industry, the contribution it makes to the Australian economy and its role in managing the nation's savings, FSC has outlined a set of policy priorities which are critical to the continued growth of the sector and health of the wider economy.

CONTENTS

FSC's Policy Principles	4
Advice	6
Economic Policy	8
Investment	9
Global Markets & Tax	11
Life Insurance	13
Superannuation	16
Trustees	18
Financial Sector Regulation	19



FSC's Policy Principles

The following principles guide our perspective on public policy development in Australia. In a sense, these principles double as our objectives.

1. PUBLIC POLICY DEVELOPMENT

We will advocate for sustainable public policy that enhances the financial wellbeing of all Australians:

- We will ensure our policies are apolitical, balanced and evidence based; and
- We believe public policy should be focused on promoting a dynamic financial services sector whilst promoting good consumer outcomes.

2. CONSUMER OUTCOMES

We believe in a financial services system that promotes better consumer outcomes and living standards:

- We believe every Australian has the right to access affordable, effective, and fit for purpose financial products;
- We believe every Australian deserves dignity in retirement through the provision of adequate, sustainable income; and
- We believe consumer trust and confidence in financial services is vital.

3. ECONOMIC GROWTH

We believe economic growth is fundamental to the prosperity of all Australians.

To achieve this we believe:

- State and Federal budgets should be sustainable;
- Measures should be taken to protect public finances against increasing costs of an aging population;
- Taxation settings should promote efficiency and equity;
- Markets should be allowed to function efficiently; and
- Foreign investment and trade barriers should be broken down to benefit all Australians.

4. GLOBAL COMPETITIVENESS

We believe in a liberalised economy with appropriate regulatory settings. We believe in removing barriers to the export of financial services.

To achieve these outcomes we will strive to:

- Ensure Australia is a competitive place to do business;
- Improve trade policy and its implementation in Australia;
- Ensure a level playing field between Australia and our trading partners through free trade agreements; and
- Encourage effective co-ordination between government and industry.

5. FINANCIAL SERVICES INDUSTRY GROWTH

We believe a strong and competitive financial services sector is good for Australia.

We seek to:

- Ensure the industry's competitive advantage is leveraged;
- Promote competition within the industry; and
- Drive future economic growth in Australia.

6. FINANCIAL SERVICES INDUSTRY STANDARDS

To the greatest extent possible under a self-regulatory model, we will adopt best practice in our dealings with consumers and stakeholders.

We will implement industry standards and guidance that seek to:

- Promote a long-term approach to decision making where this is preferable to short term opportunism;
- Maintain sound practices that benefit consumers; and
- Engage in responsible and transparent business practices that centre on facilitating best possible outcomes for consumers.

Advice

Principles

FSC supports policy settings that:

- Engender trust and confidence in the advice profession
- Place the interests of consumers first
- Improve the accessibility and affordability of advice for all Australians

A new framework for adviser standards

We support the strengthening of financial advice through increasing professional standards and the introduction of a new body that sets independent standards. Community trust in financial advice has diminished in recent years. This is a poor outcome. We believe that good financial advice is good for people's wellbeing.

To this end, we seek a model with:

- A new standalone independent standards body;
- Higher entrance requirements for financial advisers; and
- Ongoing education for financial advisers via continuing professional development requirements, including an ethics component.

Aligning remuneration with consumer interests in life insurance advice and develop an FSC Approved Product List (APL) standard

Quality advice can be adversely impacted by conflicted remuneration. We support a transition to remuneration practices which are more aligned with consumer interests, and believe the current industry proposal currently being finalised by the government will be a good first step. Additionally, FSC will also develop a new industry standard for widening insurance Approved Product Lists.

Enhancing consumer understanding of financial advice – shorter and more effective Statements of Advice

Research shows that the wide ranging benefits consumers receive from financial advice extends well beyond financial benefits and includes changes to savings behaviour, greater financial discipline and a greater sense of overall wellbeing. Whilst there are many benefits to financial advice, the legislatively mandated documents, known as Statements of Advice (SoA), that are given to consumers when they receive personal advice can be complicated, long and difficult to understand. FSC supports shorter and more effective SoA and believes they should enhance consumer understanding. We believe a review from ASIC focusing on SoA and making disclosure simpler and more effective is key.

Improving the accessibility and affordability of advice

Affordability of advice has been commonly cited as a barrier to consumers obtaining financial advice. New advice delivery methods, such as digital advice, have the capacity to reduce the cost of advice and make advice more accessible to Australians. The regulatory framework should facilitate the delivery of different advice models, including digital advice delivery methods, whilst maintaining consumer safeguards.

One of the objectives of the FOFA reforms was to make advice more accessible and affordable to consumers, in addition to improving the trust and confidence in financial services. The question is whether FOFA has been effective in achieving this. FSC believes that accessibility and affordability of advice are absolutely critical to facilitating the financial well being of Australians and will research whether FOFA has been effective.

Economic Policy

Principles

FSC supports policy settings that:

- Recognise the importance of financial services to the Australian economy
- Improve Australia's international competitiveness and ability to attract capital
- Promote medium-term fiscal sustainability
- Reduce sovereign risk and promote investor confidence in Australia

Shifting the tax mix to increase international competitiveness

Australia needs a tax system that ensures medium-term fiscal sustainability by collecting enough revenue to fund government expenditure in a way that is economically efficient and internationally competitive.

The design of the current tax system is slowing economic growth unnecessarily.

The mix of taxation is inefficient, with too heavy a reliance on direct taxes such as corporate and income tax and stamp duties to raise revenues across both the Commonwealth, State and Territory levels of government.

States and Territories, under increasing fiscal pressure due to the vertical fiscal imbalance, are increasingly adopting a piecemeal approach to taxation by raising taxes in the budget cycle – often those that are the most inefficient.

The primary focus of tax reform should be to fix the mix of taxation so that it improves economic growth, improves our international competitiveness, promotes investment and hard work, and raises the productivity of the country. This would involve:

- Increasing the GST rate to 15 per cent, and broadening the base;
- Reducing the corporate tax rate to 22 per cent;
- Abolishing inefficient State Taxes, including stamp duties on life insurance; and
- Adjusting the personal income tax scales and indexing them to end bracket creep.

Such a package of tax reform should be crafted in a revenue neutral way. Modelling by KPMG suggests this package could boost GDP by 2 per cent, while leaving no Australian worker worse off.

Investment

Principles

FSC supports policy settings which:

- Enhance market integrity and efficiency
- Promote sound corporate governance practices in the funds management industry
- Maintain and increase consumer confidence in the funds management industry

The Value of Funds Management

Australia holds the world's fourth largest pool of funds under management through our superannuation and funds management industries. As an important part of the value chain, funds management must be recognised as a world leading sector in Australia and operating in one of the most competitive markets in the world. To this end, we seek to raise the profile of funds management in Australia and promote that:

- Australia has among the lowest, if not the lowest, funds management fees in the world;
- Consumers should be better informed about the funds management industry as an important part of their wealth creation and management process; and
- The funds management industry requires deregulation to further assist in delivering the best services at the lowest cost to consumers.

Improve corporate governance practices in Australia

As institutional investors, we believe in strong corporate governance practices in Australia. Corporate Australia should aim to follow global best practice and improve board practices and disclosure where possible. To this end, we support:

- Board diversity and independence;
- Fair and efficient market rules and practices; and
- Improved reporting and disclosure by corporate Australia.

Support the incorporation of Environment, Social and Governance (ESG) factors into investing

It is important now more than ever to take non-financial data into account in investment decisions and take a long-term approach to investing. We support increased transparency to aid decision making, efficient transition of sectors in the changing economy, the pricing of negative externalities, and a fair and competitive market economy. For these reasons, we:

- Support disclosure by investors of ESG integration and impacts;
- Acknowledge that ESG integration is an important element of fiduciary duty and is in the best interests of long-term investors;
- Support policy that removes regulatory barriers to investing in new sectors of the economy including development of the impact investing market; and
- Take an interest in climate change policy and the Government's international commitments on Australia's carbon emissions and renewable energy. As part of this, we support policy clarity on climate change and energy markets.

Global Markets & Tax

Principles

FSC supports policy settings which:

- Promote the development of Australia as a regional financial services centre
- Increase the attractiveness of Australia's trade and regulatory policy settings to foreign investment
- Enhance the competitiveness and efficiency of Australia's taxation system for foreign investors in managed funds
- Increase international regulatory recognition for Australia's financial services regime
- Improve regional awareness of the scale and capability of Australia's financial services sector

Unfinished Johnson Report recommendations

In 2009, the Australian Financial Centre Forum completed its report 'Australia as a Financial Centre – Building on our Strengths'. Known as the Johnson Report the recommendations were intended to improve the Australian financial sector's ability to capitalise on its high levels of expertise and significant opportunities in offshore markets.

Few of the Johnson Report recommendations have been completed. For the funds management sector a number of critical items are still awaiting finalisation:

- Asia Region Funds Passport - The Passport will provide the architecture to support cross-border sales of managed funds between Japan, Korea, New Zealand and Australia in 2017. FSC supports further expansion of the Passport over time.
- Collective Investment Vehicles - Australian fund managers are currently limited to one type of collective investment vehicle structure; a unit trust. FSC supports the addition of new collective investment vehicles, including corporate and limited partnership structures, to increase foreign investor usage of Australian based fund products.
- Withholding tax – Australia's withholding tax regime is notoriously complex. Numerous types of withholding tax apply to foreign investors with differing rates based on the investor's country of origin and the type of international agreement. FSC strongly advocates for a simpler, more competitive approach to be adopted.

Trade agenda and implementation

FSC supports free trade and the Government's agenda in securing both bilateral and multilateral agreements with Australia's major trading partners. In particular, the growing middle class and ageing population in Asia provides an untapped opportunity for Australia's financial services sector.

We seek a new domestic policy process including:

- A framework for mutual recognition arrangements with regulators in the region (that is, implementation of free trade agreements in financial services);
- Industry input into negotiations of free trade agreements;
- An Australian Securities and Investments Commission (ASIC) commissioner dedicated to international cooperation and free trade agreement implementation; and
- A coordination body. This body should collaborate with Government departments and regulators responsible for financial services trade policy including Department of Foreign Affairs and Trade, the Treasury and ASIC.

Life Insurance

Principles

FSC supports policy settings that:

- Increase consumer trust and confidence in the life insurance industry
- Ensure life and risk insurance is accessible and affordable
- Promote the benefits to consumers of providing group insurance superannuation
- Enable greater product innovation to occur
- Support positive mental health

Policies

Australia has a significant underinsurance problem. Research by KPMG highlights the extent of underinsurance that exists amongst the Australian community.

The financial cost of underinsurance is not borne by individuals and families alone, but also comes at a substantial cost to the Government. The provision of life insurance is therefore a social good which should be supported by Government.

Improving the quality of life insurance in Australia

We believe that setting maximum remuneration caps of 60 per cent for upfront commissions by 1 July 2018, and 20 per cent for ongoing commissions by 1 July 2016, in conjunction with an extended clawback period of 2 years (with a reduced clawback rate in year 2) will improve consumer outcomes. The reforms regulate conflicted remuneration on life insurance products and apply to personal and general advice.

These measures will reduce the misaligned incentives found in ASIC Report 413 and re-iterated in the Trowbridge Review of Retail Life Insurance Advice, and the Financial System Inquiry, which noted that remuneration arrangements allowing commissions of 120 per cent of the first year's premium create an incentive to offer advice that may not be in the best interests of the client (notwithstanding the legal requirements of the best interests duty).

These arrangements allow the continuation of upfront commissions at levels that provide support for the independent adviser market, and also provide for an appropriate transition to remuneration practices that are better aligned with consumers' interests.

Also vital to these reforms is appropriate monitoring of the new arrangements to provide additional integrity around adviser behaviour. ASIC will undertake a review of the reforms which will consider whether there is significant improvement in practices. FSC supports reviewing the application of the reforms and believes a commitment to move to level commissions and fee for service remuneration arrangements is necessary if the reform is failing to achieve its objective.

FSC is also developing a Life Insurance Code of Practice (The Code), which is an industry first. It will commit life insurers to strong standards of customer service, and will provide meaningful protections to consumers in the key areas of product design, sales practices, underwriting and claims. Insurers will be required to provide additional support to vulnerable consumers, who may require assistance navigating the insurance process. The Code is intended to be a living document that can adapt to address industry issues that arise in the future, to ensure it remains fit-for-purpose as a valuable self-regulatory instrument that delivers important consumer protections. The Code will commence on 1 July 2016, and all FSC members who issue life insurance will be required to comply by 30 June 2017.

Streamlining the regulatory framework to encourage product innovation

Rigidities in insurance regulatory architecture have contributed to underinsurance as providers have not been permitted to develop a wide array of innovative products.

Australia operates under a highly segmented insurance framework. This framework is stifling innovation in insurance products and the ability of insurers to meet consumers' needs.

Development of innovative insurance products could be fostered under a streamlined, consolidated prudential framework that would enable providers to deliver multi-purpose products.

A more effective regulatory framework would allow better priced and more consumer focused product offering. This would improve the efficiency and effectiveness of insurance markets in Australia by minimising regulatory compliance costs. Improving these market rigidities would assist in reducing the level of underinsurance.

Remove unnecessary regulatory barriers that enable life insurers to offer targeted rehabilitation benefits

The Commonwealth Government has clearly articulated that boosting workforce participation is a key priority for both economic and social reasons.

The longer an individual is away from work significantly reduces their likelihood of returning to work, which can result in a negative effect on the individual and their family. This is because the longer a person is away from work the higher the likelihood of poorer physical and mental health culminating in more permanent disability, removing them from the workforce. For example, according to the Australasian Faculty of Occupational and Environmental Medicine, if a person is off work for 70 days their probability of returning to work reduces to 35 per cent.

Private personal disability income insurance is a means for individuals to protect themselves from economic losses that arise from both mental and physical disability. However, only viewing this type of insurance as providing income protection ignores the wider benefits that this insurance could provide to consumers, society and public finances.

Current legislative arrangements prevent life insurers from offering targeted rehabilitation benefits in certain circumstances, even when they are considered by the insurer to be relevant, appropriate and necessary to rehabilitate the claimant under a continuous disability policy. Specifically, life insurers wish to make targeted rehabilitation payments for medical treatment or therapy that they determine to be relevant, appropriate and necessary to return the claimant to work.

If these restrictions were removed, life insurers would be able to use more effective early claim intervention practices through offering rehabilitation benefits. This would increase an injured person's probability of successful rehabilitation relative to the status quo.

Abolish stamp duties on life insurance

Australia's current tax mix, with its high reliance on income and corporate taxes and inefficient State stamp duties, is not sustainable. The most inefficient taxes are State stamp duties, particularly on life insurance, which not only add costs to life insurance products for consumers, but are also a drag on productivity.

The States are increasingly relying on inefficient, growth-destroying taxes to meet their expenditure needs. Discouraging people from taking out insurance adds further pressure to Commonwealth budgets.

Supporting mental health and life insurance

Mental health is an important matter of public interest to the community and life insurers alike. FSC has developed a Mental Health Standard to ensure life insurers who provide information to consumers receive an appropriate level of education and training in awareness of mental health.

To help better support consumers with mental health conditions, FSC will continue to focus on mental health initiatives. Research shows the extensive health benefits of work and life insurers can play an important role in helping people with mental illness get back to good health and work. FSC's focus on removing unnecessary regulatory barriers that result in poor consumer outcomes will also assist with this.

Superannuation

Principles

FSC supports policy settings that:

- Enhance the effectiveness, efficiency and adequacy of the superannuation system
- Maintain and increase consumer confidence in superannuation
- Improve levels of engagement and financial literacy in superannuation
- Promote competitive neutrality and competition in the industry
- Promote a sustainable tax structure that assists the majority of Australians to achieve self-funded retirement

FSC defines the objective of the superannuation system as to deliver dignity and independence for all Australians in retirement by providing replacement income that is adequate to provide a comfortable standard of living. Superannuation must also reduce the burden of the aging population by reducing the cost of the age pension.

Promote policy settings that help the superannuation system achieve its objectives:

- A minimum super contribution rate of 12 per cent by 2022;
- Tax settings that promote adequate retirement outcomes, particularly for women who currently experience unequal retirement incomes relative to men; and
- A staged increase in the preservation age, linked to the age pension eligibility age, and increases in life expectancy, while preserving a reasonable gap, accompanied by an early release mechanism for those unable to work later in life.

Support the implementation of the Financial System Inquiry recommendations:

- Enshrine in legislation the objective of the superannuation system with bi-partisan political support;
- Promote competition in superannuation to deliver lower fees and better products for consumers;
 - Remove barriers in industrial law to consumers choosing their own superannuation fund; and
 - Allow an employer to select any APRA-approved MySuper product to be the default fund for their workplace.
- Support reforms that would raise standards of governance in the superannuation industry by requiring all trustee boards to have a minimum number of independent directors and an independent chair.

Trustee designed retirement products and income streams:

- Support the removal of tax and regulatory barriers to retirement income products; and
- Support the implementation of retirement income products offered to consumers who do not exercise choice at retirement.

Increase engagement and transparency in superannuation:

- FSC supports increased transparency in superannuation and believes consumers deserve to be informed about their superannuation accounts to enable them to make better decisions about their retirement; and
- FSC supports policies that will promote consumer engagement, increase financial literacy and bolster confidence in the system.

Trustees

Principles

FSC supports policy settings that:

- Promote sound governance practices in the traditional trustee services sector
- Support the efficient and effective delivery of high quality trustee services to Australians
- Facilitate an open and competitive national market for trustee services

Philanthropy thought leadership: promote greater giving and better regulation

There is considerable scope to grow philanthropy in Australia, especially when compared to our overseas counterparts. FSC seeks to promote greater giving through thought leadership and advocacy for better regulation designed to encourage, rather than stifle, charitable giving. Australia should consider whether it has in place the right philanthropic structures to maximise charitable giving.

FSC is committed to encouraging greater public debate around the way philanthropists can work with community and government to tackle the social challenges of our age.

Engage closely with the Government around the roll-out of the NDIS and NIIS

FSC will work with the Federal and State and Territory Governments around the roll-out of two critical pieces of public policy: the National Disability Insurance Scheme (NDIS) and National Injury Insurance Scheme (NIIS). Both public and private trustees have a wealth of experience in assisting people with disabilities.

FSC believes that it is critical that these schemes are introduced in a manner which empowers people with disabilities, while ensuring the policies' long-term sustainability.

Promote greater public awareness around the importance of estate management

With Australians living longer, and older Australians being the wealthiest in the nation's history, it is critical that they have access to, and understand, the value of estate management. This context of an ageing population, and the expected spike in dementia numbers over the coming decades, FSC will aim to raise public awareness of these issues, including the importance of a valid will and power of attorney.

Financial Sector Regulation

Principles

FSC supports policy settings that:

- Promote best practice regulation
- Ensure regulation is technology neutral
- Ensure regulation does not create undue burden

Best practice regulation

FSC believes the regulation making process can be improved by:

- The government committing to be bound by its Best Practice Regulation Handbook in relation to regulatory proposals that impose compliance costs on the industry;
- The Productivity Commission conducting an annual review of new legislation, regulations and other legislative instruments which affect the financial services industry, including the impact of overseas regulation, with the aim of identifying redundant regulation and/or ways of making existing regulation more efficient; and
- Considering regulatory impact as a whole, rather than as individual parts.

Technology neutral regulation

FSC supports development of technology neutral regulation to ensure both new and existing requirements can be met in a technologically neutral manner. This will allow innovation to occur, which will drive operational efficiencies and reduce costs. In addition it will encourage development of new products and distribution strategies to benefit consumers.

Existing regulations should be reviewed to determine how to achieve neutrality and new regulations should be tested as part of the development process, to ensure they are truly neutral.

Cost/benefit analysis of increases in regulation

Australia's international competitiveness must be considered when additional laws and regulation are created. A cost/benefit analysis should accompany each new legislative initiative to ensure that the benefit of additional regulation outweighs its cost to the industry, and therefore the consumer. Existing regulations should also be reviewed to ensure that appropriate rationalisation of existing products can occur and advances in technology can be adopted.



While all due care has been taken in the preparation of this report, Financial Services Council does not make any representation or warranty in relation to the accuracy or completeness of the information contained in this report. Commentary, information or material contained in this report is of a general nature only. This report does not in any way constitute investment, legal or taxation advice and is not a substitute for specific professional advice. No person should undertake or refrain from any action based on the information in this report without seeking advice from an appropriately qualified professional. Financial Services Council accepts no responsibility for any loss or damage caused as a result of the use or reliance on this report by any person.

Financial Services Council
Level 24, 44 Market Street
Sydney NSW 2000 Australia
www.fsc.org.au