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SPEECH

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CHECK AGAINST DELIVERY

Introductory remarks

Good morning.

Thank you for going out of your way to attend this early morning event!

And thanks to the Financial Services Council for inviting me to speak today.

The Financial Services Council plays a vital and important role in representing your industry, and by contributing to the policy debate around economic and financial services reform.

I acknowledge your substantial contribution to the Financial System Inquiry in particular and look forward to your contribution in other important processes including the Tax Discussion Paper.

Today I will traverse a number of topics, including the role of the financial system, superannuation, financial advice, the Financial System Inquiry, Australia as a financial centre, and the Tax White Paper.

Role of the financial system

First, I'd like to note that Australia's financial services system has served us very well.

It has supported growth in our economy in smooth and rough times.

It makes a direct contribution to the nation's finances.

In fact, the financial services sector represents around 9 per cent of the Australian economy.[1]

Over the past couple of decades, the sector grew around 5 per cent a year - faster than the rest of the economy.[2]

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[1] ABS cat. no. 5206.0 (Australian National Accounts: National Income, Expenditure and Product, Quarterly).

Today it employs around 413,000 people.[3]

And the financial sector also adds value well beyond its direct contribution.

It makes an even more important indirect contribution by channelling saving to investment.

This is an important function for our economy and a key driver of economic growth.

Superannuation

Superannuation is one way that the financial system helps people save for retirement.

The system helps Australians enhance their retirement incomes and supplement or reduce their reliance on the Age Pension.

The recent Intergenerational Report notes that superannuation assets are expected to increase as the system matures, and wages grow.

The superannuation system has grown from $300 billion of assets in 1997 to over $1.9 trillion today – more than Australia's annual gross domestic product.[4] And it is expected to reach $9 trillion in 2040.

Superannuation is one of the key issues raised by the Financial System Inquiry. The Inquiry highlighted the growing importance of superannuation as the Australian population ages.

A key recommendation is to agree a clear objective for the superannuation system. This recommendation is designed to address one of the most common criticisms of the superannuation system – a lack of certainty and stability in policy settings.

My view is that a carefully drafted objective – with bipartisan support – would have positive benefits for the stability and accountability of the system and those who play a role in it.

The Inquiry explored options to improve the governance of superannuation funds. It examined the overall efficiency of the superannuation system. It considered ways in which the system could best transform savings into retirement income.

The growing importance of superannuation to the financial system and to each and every Australian is why it is so important to get the regulatory settings for superannuation right.

One of those settings is governance, and the Government is keen to improve governance in superannuation. This was our commitment going into the 2013 election.

This means making sure there is an appropriate number of independent directors on superannuation fund boards, helping improve decision-making by broadening the range of skills.

Another of those settings is superannuation transparency, and the Government has committed to making improvements in this area.

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[2] ABS cat. no. 5204.0 (Australian System of National Accounts, 2013-14).

[3] ABS cat. no. 6291.0.55.003 (Labour Force, Australia, Detailed, Quarterly)

[4] ABS cat. no. 5206.0 (Australian National Accounts: National Income, Expenditure and Product, Quarterly), APRA Quarterly Superannuation Performance and APRA Insight: Celebrating 10 years of superannuation data collection 1996-2006.

We want consumers to be able to compare the relative performance of superannuation funds, so they can choose the product that is right for them.

A further important regulatory setting is competition – and that's why the Government wants to open up the default superannuation market so that there is more choice.

I have stressed, in the past, the importance of genuine competition in the default superannuation market.

More competition means there is more pressure on funds to gain business and be more efficient. This puts downward pressure on fees, and can lead to better outcomes for consumers.

The Government consulted on these issues when it released its discussion paper in late 2013, and we are continuing to consult with the industry as we look to settle our policy in this area.

The Government will respond formally to the Financial System Inquiry's recommendations over the course of this year.

I will talk more on the Inquiry a little later. But now, I'd like to turn to financial advice.

Financial advice

Let me say at the outset that financial advisers play a very important role in Australia. They help consumers to plan for their retirement, and manage the financial risks and opportunities of life.

But public confidence in the financial advice sector has been shaken – and understandably so, after the number of high-profile advice and product failures we have seen in recent years.

We have also seen a bruising battle in the parliament on the FOFA reforms. But for a few technical amendments that we are working through in a bipartisan basis with the opposition, the reforms are settled and we are not seeking to re-litigate previous differences of opinion.

Professional standards

Two important recent inquiries – the Financial System Inquiry, and an inquiry by the Parliamentary Joint Committee on Corporations and Financial Services[5] – found that the current regulatory arrangements on professional standards are not sufficient, and recommended reform in this area.

We need to make sure that consumers receive high quality outcomes.

And we need to maintain public confidence in the financial services industry.

It's time to put in place an enduring framework that raises the professional, ethical and educational standards of advisers.

So I am very pleased to see that a number of major financial institutions have recently voluntarily announced that they have, or intend to, significantly raise standards for their advisers.

The Government is seeking to build on this momentum.

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[5] The Parliamentary Joint Committee on Corporations and Financial Services' inquiry into proposals to lift the professional, ethical and education standards in the financial services industry.

We will develop a model to increase the professional, ethical and education standards applied to financial advisers.

If we get this model right, improvements in the qualifications, competence and ethics of the financial advice industry will benefit everyone.

The community will benefit from increased transparency, accountability and adviser confidence. Industry will benefit from their recognition as a profession and improved consumer confidence. And hopefully a few less reviews in the future!

As you know, we have developed a consultation paper based on the recommendations of the Parliamentary Joint Committee, or PJC.

The PJC recommended a co-regulatory model, where Government, professional associations, industry and academia work together.

The core elements of the PJC model apply to personal advice on Tier 1 financial products, like shares, superannuation, life insurance and managed investments.

I've been meeting with key stakeholders and will shortly be holding a roundtable to further progress these recommendations. I look forward to working with you all on these critical reforms.

Register of financial advisers

The Government, with your assistance, has already taken a significant first step in restoring consumer trust in financial advisers, through the establishment of an industry-wide register of financial advisers.

The adviser register is now in operation, and allows consumers, employers and the Australian Securities and Investments Commission (ASIC) to verify the credentials of over 20,000 people offering financial advice.

As I said recently, having the ability to go to a single register of financial advisers to check a particular individual will give consumers greater confidence in the adviser they choose, and improve transparency and accountability in the finance sector.[6]

And on this point, I would like to thank the Financial Services Council for the constructive role they played in the development of the register.

And I would also like to acknowledge the work of many of you in the room for providing a large volume of relevant adviser details to ASIC in such a timely fashion.

Life insurance

Together with the Association of Financial Advisers, the Financial Services Council commissioned the Review of Retail Life Insurance Advice, chaired by John Trowbridge.

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[6] Sydney Morning Herald, 31 March 2015, http://www.smh.com.au/business/banking-and-finance/financial-planners-register-a-major-step-forward-says-josh-frydenberg-20150331-1mbiwd.html.

I would like to recognise the Financial Services Council's role in commissioning this important independent study. This follows the ASIC Review of Retail Life Insurance Advice of October 2014, which criticised the quality of advice and the remuneration structures of advisers.

Through the commissioning of the Trowbridge report, it is encouraging to see industry taking responsibility for these issues and acknowledging that the status quo is no longer viable.

Appropriate reform, made as soon as possible, must be led by the industry itself. Industry should not force the heavy hand of government to act.

Trowbridge's recommendations around commission structures, ensuring approved product lists cover at least half of all providers, a re-examination of the culture, behaviours and practices of advisers and a Life Insurance Code of Practice are all deserving of consideration.

In the case of Government, while David Murray's Financial System Inquiry and the Trowbridge report provide us with a number of options for reform – the extent to which we intervene will ultimately depend on the industry's own actions.

The Government will be a willing reform partner with the industry provided the industry is prepared to adopt genuine solutions to the issues identified in ASIC's report.

Financial System Inquiry

As I mentioned earlier, the Government has been carefully considering the final report of the Financial System Inquiry and we are now turning our minds to the near 180 submissions which were received by 31 March when the date for submissions closed.

I recently chaired two roundtables dealing with super and consumer outcomes and was encouraged by the degree of good will and in principle support for many of the recommendations.

The Inquiry found that the Australian financial system had performed well since the Wallis Inquiry which reported in 1997.

But there is room for improvement.

The Financial System Inquiry outlined a blueprint for an 'efficient, resilient and fair' financial system over the next 10 to 20 years.

The Inquiry considered that more could be done to improve outcomes for consumers. So, the consumer recommendations aim to strengthen the current framework, to promote consumer trust in the system and the fair treatment of consumers.

The Inquiry also notes some misalignment between consumer interests and the governance and culture of financial firms and their representatives.

The Inquiry makes recommendations that aim to address this. It considers the alignment between consumer outcomes and the corporate culture of financial firms should begin when a product is designed. So, it has recommended the introduction of a product manufacturer obligation and a product intervention power for ASIC.

I appreciate that these proposals represent a substantial change from our current arrangements, and that some may view them as potentially giving rise to a range of unintended consequences.

While consumer protection is a goal no-one would argue with, the benefits, potential costs and possible unintended consequences of regulatory interventions must always be carefully considered.

Your views will help us better understand these issues.

The Government genuinely appreciates the effort and time industry has put into this process and as I said earlier is carefully considering the submissions carefully. Ultimately, we all want Australia's financial system to be world-class on every front.

Australia as a financial centre

I'd also like to talk about Australia's future as a financial centre.

In 2009, the Australian Financial Centre Forum published a report[7] known as the Johnson Report.

The Johnson report made a number of policy recommendations to help the Australian financial services industry export its expertise, and to improve competition in the sector.

The report concluded that while the Australian financial sector is one of the largest and most sophisticated in the world, its engagement in cross-border activities within the Asia-Pacific region and beyond is low by international standards.

The Government wants this to change.

So we are promoting Australia as a financial centre in five main ways as recommended in the Johnson report.

First, we are developing the Investment Manager Regime, which will encourage greater investment to Australia by providing tax certainty for foreign investors.

Second, we have recently issued exposure draft legislation to create new tax system for managed investment trusts (MITs) that will modernise the tax rules for eligible funds and increase certainty for the industry and investors.

Third, we are improving and modernising the offshore banking unit regime, so that we can take advantage of opportunities to participate in international transactions and attract mobile financial sector activities.

Fourth, we are developing the Asia Region Funds Passport. Once implemented, the passport will allow the cross-border marketing of managed funds across participating economies in the Asia region.

I am personally very passionate about this opportunity having recently attended the Asian Financial Forum in Hong Kong. I hope to lead an Australian delegation later in the year to galvanise support for the Passport in the region.

Lastly we are looking at broadening the range of collective investment vehicles.

This means making the necessary tax and regulatory changes that will make the financial services industry more globally competitive and increase exports of Australia's financial services.

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[7] Australian Financial Centre Forum, Australia as a Financial Centre: Building on our Strengths, November 2009, at http://afcf.treasury.gov.au/content/final_report.asp.

As some of you will be aware, the Board of Taxation conducted an inquiry into this area and their final report has not been released. I am hopeful of shortly releasing a number of Board of Tax reports, including this one, to enable all stakeholders to consider the Board's reports as part of submitting to the Tax White Paper process.

I'd like to note that the Financial Services Council has played an important role in advancing these recommendations and other initiatives, including the managed investment trust tax reforms – so thank you.

I have no doubt your role will be just as important as we develop the Tax White Paper.

Tax white paper

Many of you here will know of the Government's commitment to a new era of reform in Australia.

We want to lift productivity and make the most of the nation's economic potential.

As part of our broader reform agenda, the Government is conducting a comprehensive review of the tax system. We want to achieve a better tax system that delivers taxes that are lower, simpler and fairer.

At the end of March, the Government released a tax discussion paper — "Re:think" — to kick off a community-wide conversation about tax reform.

There were a number of key takeouts from the Discussion Paper:

- Tax compliance costs are in the order of $40 billion per year,
- We have an over-reliance on income and company taxes which contribute around 70 per cent of tax receipts,
- And the pernicious effect of bracket creep as people move into higher tax brackets without tax cuts. Without reform, the percentage of taxpayers in the top two tax brackets will increase from 27 per cent to 43 per cent over the next decade.

We've called for submissions on the discussion paper from interested individuals or organisations, which can be made until 1 June 2015.

I encourage you to make your views known.

We're receptive to ideas about how we can make the tax system better.

That's why we have not ruled anything in or out of consideration in the tax discussion paper. At this stage, we want to gather as many ideas as we can, and start to investigate and evaluate them.

Later this year, after the submissions process, the Government will release an options paper which will seek the community's views on possible reforms to improve the tax system.

The Government's final policies will then be put forward for consideration by the Australian people before the next election.

Closing remarks

So, there is a lot happening within the financial services industry.

There is a real opportunity for Australia to leverage our domestic success to tap into the growing demand for financial services from the burgeoning Asian middle class.

We must continue to pursue the domestic reform agenda. In doing so I hope that we can work closely together. I am your willing partner and if we can get reform right both consumers and industry can be better off.

And I know all of you will continue to be involved in the public discussion about issues of relevance to you. Thank you for that – you make an important contribution.

Thank you.

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