

SPEAKING NOTES

**SALLY LOANE, FSC CEO
SUMMIT CONFERENCE
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**** CHECK AGAINST DELIVERY ****

Good morning everyone. Welcome to the Financial Services Council Leaders' Summit for 2019. This is my fifth Summit - I think the agenda is the best – it is certainly the most diverse.

I would like to acknowledge the traditional owners of land on which we meet – the Gadigal people of the Eora Nation and pay my respects to their elders, past, present and emerging.

A big thanks to PWC, our major sponsor for the fourth year running. We strongly value this relationship and without it we couldn't bring you the fine line up we have over the next two days.

Thanks to our other conference partners KPMG, MLC Life Insurance, RBC Investor and Treasury Services, APIR, CIMA Society, Lab Group and ShineWing.

Welcome to FSC Chairman Geoff Lloyd, FSC directors, FSC members – and those of you who are not yet members.

A warm welcome to our friends from Japan, Hong Kong, Malaysia and Taiwan representing fund managers in their countries

CONTEXT

As an industry we have come a long way since the Hayne Royal Commission...

... and significant work is underway in response to all the recommendations.

Last Monday, Treasurer Josh Frydenberg released the Government's Royal Commission implementation roadmap confirming their intention to act on all recommendations by the end of 2020.

I was at the announcement, and noted a lot of motivation in the treasury parliamentary team – and on the backbench - to get the job done as efficiently and effectively as possible.

With the release of the roadmap, industry has certainty, timelines and an end date.

Implementation of the recommendations has been underway for most of our members since February, or even before, and many are well progressed with this body of work.

The FSC is focusing on the review of the **Life Insurance Code of Practice**.

This Code governs the conduct and practices of the 22 Australian life insurers, all FSC members. The Code covers every life insurance policy that can be taken out in Australia today.

It is solid evidence as to how much work is being done to strengthen the sector and give consumers a better deal.

We are also focused on making sure the **Grandfathering Bill**, which is expected to be back before Parliament in early September, has no unintended consequences, particularly for consumers.

The FSC has raised significant concerns that any model of a **Compensation Scheme of Last Resort** must not create a moral hazard which ultimately will be detrimental to consumers and leave parts of our sector struggling to be sustainable. It will simply not work if the best people in the industry have to pay for the mistakes of the worst.

We will work with the Government to ensure the scheme is targeted, efficient and equitable.

Broadly, we are undergoing arguably the most disrupted, tightly regulated – and expensive – period in the history of financial services.

My friend Andrew Inwood wrote recently that the advice sector is being subject to a “Yucatan Event” –that’s when an asteroid hit Mexico and created massive global extinction of species.

Now that’s a vivid analogy, but it is true in some cases. It’s also true that a large number of our members’ businesses look nothing like they did 12 months ago.

More change is yet to come as banks finally spin out, or absorb their wealth arms. AMP is reinventing itself as we speak.

In a month or two we will know the effect of the *Protecting Your Super* legislation on super funds which benefited from billions of dollars of fees from millions of multiple accounts.

We backed this particular reform, and we look forward to the Government delivering even more efficiency reforms to super, particularly the twin Hayne-Productivity Commission recommendation that Australians default once into a high quality fund.

This means people can take their super fund with them from job to job, just as we all do now with bank accounts and tax file numbers. It will finally mean the end of unintended multiple accounts.

Some of the most interesting conversations over the next two days will take us into the heart of the big industry super funds, with ISA and IFM Investors chairman Greg Combet – described by the Financial review as “one of the most influential leaders in financial services” and as holding the “future of Australian capitalism” in his hands, by The Conversation.

one media outlet as the most powerful man in capitalism in Australia – in conversation with the guru of the AFR’s back page, Tony Boyd.

The Future of Retail Super – tomorrow’s final session, will look ahead to the next five years with pragmatic optimism; our disrupted advice sector will be remodelled by an expert panel; the Morrison Government’s agenda for financial services will be examined; and we will lift the lid on the growing trend for super funds to insource management of our retirement savings.

And will the Government allow the SG to go to 12 per cent? Don't miss the Great Debate.

Today's opening panel will examine the landscape for fund managers – and reveal an extraordinary forecast showing that Australia is poised to become a capital exporting nation, no longer reliant on foreign funds – thanks to the extraordinary growth and market power of compulsory superannuation.

What will this mean for our economy? The dollar? Capital markets and listed companies? You're going to want to know.

We have a stellar line up of guest speakers – ex-Foreign Minister Julie Bishop; Senator Jane Hume, the Assistant Minister for Superannuation and Financial Services; Labor's financial services spokesman Stephen Jones, ASIC chairman James Shipton and UK industry expert Chris Cummings.

And more than enough lively debates in the concurrent sessions to keep the media busy for days.

[SLIDE ONE – STATE OF INDUSTRY]

Last month the FSC released the 2019 State of the Industry Report - a high-level summary of Australia's largest industry, financial services.

If you haven't got a copy download it from Summit mobile app or from the FSC website.

It is a source of truth for members, the media, politicians and policy makers.

One thing that really stood out to me from the report was just how exquisitely targeted our retirement income system is.

[SLIDE TWO – TARGETED SYSTEM] –Figure 14, pg 20.

The OECD forecasts Australia will spend less on Government age pensions than any other included OECD country in 2025, 2035 and 2045. This graph showing 2035 makes the point

The average forecast spending on the Age Pension as share of GDP is sitting around 10.7 - with Australia lowest on 2.5 per cent.

Our Age Pension provides better retirement incomes for low income earners than most other OECD countries

[SLIDE THREE – TARGETED SYSTEM CONT.] – Figure 15 pg 21

We also know the age pension is well targeted for people on low incomes – these graphs show Australia provides one of the highest replacement rates for low income earners.

Relative tax incentives for superannuation in Australia are below the OECD average, and Australia provides approximately the same relative incentives for all of us – whether we're low, middle and high income earners.

By comparison, many OECD countries provide a greater relative tax incentive for high income earners.

Conclusion - the Australian system is fair for the community as a whole.

[SLIDE FOUR - SUPERANNUATION] - Figure 17 page 23

Over the five years to 2017 our superannuation system provided the highest net returns in the developed world.

With assets currently at \$2.8 trillion superannuation is the bedrock of the Australian economy and will increasingly influence how it operates.

Superannuation has for some time grown faster than GDP.

If this growth continues, Rice Warner predicts that in 15 years' time, Australian super funds are expected to own 20 per cent of Australia's listed companies. This represents a huge shift in life as we know it.

When it comes to 12 per cent SG, which we support, many studies show 9.5 per cent is not enough for Australians to achieve an adequate retirement income and substantially reduce reliance on the Age Pension.

The State of the Industry report also shows the current system doesn't provide adequate retirement incomes for middle income earners compared to the rest of the OECD.

[SLIDE FIVE – INVESTMENTS & FUNDS] – Key stats from SoTI

Managed funds play an important role in our economy, with \$2.9 trillion in funds under management - about 150 per cent of Australia's GDP.

A big issue in our Investments landscape is cost.

We are seeing real downward pressure on fees across the value chain, in asset management, superannuation, and platform advice.

Rising fast are Exchange Traded Product assets. Growth is up 27 per cent from the previous year with around 200 products currently in the space.

Advice

Whatever the advice sector looks like in its next iteration, it is essential that we have a system that's high quality, affordable and accessible for all Australians, in particular middle Australia, the 80 per cent of people who earn around \$80,000.

We all know good quality advice provides the 'gamma' in wealth building. It must not be strangled by new rules which may restrict access.

[SLIDE SIX – LIFE INSURANCE]

Despite the great work being done, including \$10.5 billion in claims paid last year - it continues to be under the microscope of government, regulators and consumers.

I'm pleased to say we are seeing companies focusing on the critical importance of mental health.

Last financial year FSC member life insurance companies paid \$809 million to 8,500 people suffering from mental ill-health.

After the Government, the Life Insurance industry contributes the most financially to people with mental ill health.

The FSC and our life members started a mental health roundtable, in collaboration with mental health consumer bodies.

I look forward to launching ground breaking research commissioned from the mental health round table later this month.

SO

While the State of the Industry report is bursting with good news, it also shows we have a bit of work to do...

...especially around the gender gap in Financial Services.

[SLIDE SEVEN – Gender]

For key management personnel in our sector only 29 per cent are female.

...and for CEOs – it's only **nine per cent**, while the average across all industries is 17 per cent.

We want to fix that. I am proud to share with you work done by the FSC Diversity Working Group.

The team has established a resource library for companies wanting to improve gender diversity.

This resource library is now live on the FSC website - thanks to all involved in making it happen.

Finally – we're all here today because we love what we do.

For good reason.

The State of the Industry report shows Financial services has contributed more than any other industry to economic growth since 1974.

It has one of the highest productivity levels in the nation. People who work in it are better educated than other sectors.

For the vast majority of Australians – our consumers - financial products and services work very well.

But we know we still have a lot of work to do to restore and strengthen trust.

I trust you use these two days to network with and learn from your peers

Let's heed the words of Minister Jane Hume and drop the culture wars in super, and instead engage in the battle of ideas which will lead to best possible outcomes for the people whose retirement savings - whose money and assets - we steward.

Have a terrific Summit