

FSC Conference 2011
The FSC Agenda for 2012 and beyond
John Brogden – CEO

Introduction

Mr Chairman, Members, Ladies and Gentlemen

I want to start by joining with the Chairman Peter Maher in welcoming you to our Annual Conference.

I also want to add the thanks of the Secretariat to you, our Members, for your support of the Financial Services Council over the last 12 months.

The direct contribution of our Members and hundreds of your staff over the last year working on the industry's position on FoFA, Cooper and a myriad of issues has been extraordinary. We have maintained and indeed enhanced our industry's reputation for the intellectual and professional quality of our representations to Government at this most critical time for our industry. Thank you.

The advice and input of our Board Committees and Working Groups has arguably never been more important to the future of our industry.

Delegates. Since the last Conference the FSC has continued to grow and to improve our services to our Members.

We have built on the successful FSC Deloitte Leadership Series Lunches with speakers including Wayne Swan, Bill Shorten, Belinda Hutchinson and Paul Costello. We returned to Brisbane for an event for the first time in many years and both our lunches in Melbourne have had record attendances. I thank Deloitte Partner Sarah Woodhouse for her support in this partnership.

Also with Deloitte, our Future Leader's Program continues to be a major attraction. Indeed this year we have the highest number of participants ever.

We held our second annual Life Insurance Conference – thanks to our major sponsor AIA and Damien Green. This event is now a permanent fixture on our agenda.

We have also launched three initiatives:

- The FSC Henry Davis York CEO Lunch Series HDY has partnered with us for four boardroom lunches this year for Full Member CEOs. Our speakers have been the Shadow Minister for Financial Services and Superannuation, Matthias Cormann, the Parliamentary Secretary to the Treasurer David Bradbury and the new ASIC Chairman Greg Medcraft. The Deputy Governor of the Reserve Bank Rick Battalino will round out the series later this year. It has been a pleasure to work with HDY's Financial Services Partner Liz Grey to bring this initiative together;

- The FSC AMP Political Series After last year's successful breakfast with the then Prime Minister Kevin Rudd, this year we initiated the FSC Political Series. With AMP and Craig Meller as our partner, we hosted the annual Parliamentary Cocktail Party in Canberra with Bill Shorten as guest speaker and will hold events in Sydney with the Prime Minister later this month and the Opposition Leader in November. The breakfast with Prime Minister Julia Gillard on 31 August is already the largest event ever held by IFSA/FSC outside the Annual Conference (...and there are tickets still available!); and
- Legal & Compliance Conference Following the theme of the Life Conferences, we will hold a conference for specialist legal, risk and compliance professionals later this year.

I am pleased to announce that our membership has grown strongly over the last year. In 2010 the Board determined to admit larger licensees as Full Members of the FSC. This cements the role of the FSC as the voice of advice and the FPA and AFA as the voice of advisers. I welcome our new members:

Full Members

- Infocus Money Management;
- Provident Capital;
- State Super Financial Services;
- AFS Group;
- St Andrew's Life Insurance Pty Ltd;
- Dixon Advisory Group;
- Matrix Planning Solutions;
- SCOR Global Life Australia P/L;

- Tyndall Investment Management Ltd;
- Rural Funds Management;
- AHL Investments (Aussie Home Loans);
- WHK Group Limited; and
- Neuberger Berman.

Supporting Members

- Corporate Enhancement;
- Sefiani Communications;
- Earnest Partners;
- Alford Brown;
- CSC;
- Gateway Financial Marketing;
- Sequential Project Services;
- HWL Ebsworth Lawyers;
- StatPro; and
- Trading Pursuits.

Of particular significance is the Member Roadshow we initiated last month. I recognise that our Members and their staff who walk through the door of level 24, 44 Market Street, Sydney and participate in Board Committees, Working Groups, Expert Groups and other meetings are very plugged into the FSC agenda. But for Members and their staff who don't, we need to do more to plug you in.

With so much change over coming years we want to provide you with all the information we have to assist you.

Supporting Members will be invited to meetings in Sydney and Melbourne for the same briefings.

In addition to this we encourage our Members and your staff to make greater use of our website to register for regular updates on policies, submissions and announcements.

Delegates.

The FSC Conference in 2010 was on the eve of the Federal election with the economy steadily returning to health.

Well what a difference a year makes.

A hung Parliament, a Labor/Green/Independent Government, the Greens holding the balance of power in the Senate and a new Minister for Financial Services and Superannuation mean we face a very different political landscape.

Engaging with Government in Australia has never been more complex.

And this has come at a critical time for Financial Services, with legislation affecting all aspects of industry upon us.

The Financial Services industry has never before experienced a reform agenda so wide and so deep.

We meet in anxious economic times for consumers and the industry.

Savings are up, but funds flows are flat.

People are putting their money in the bank for short term returns and eschewing longer term investment in their superannuation.

Anxiety is producing more savings, less spending and short termism.

The international and domestic environment is a large stimulus for this behavior.

But lengthy – and now ongoing – uncertainty in Financial Services reforms is contributing to the lack of certainty and confidence in superannuation, investments and financial advice.

We support reform, but we remind the Government that through the financial crisis there was no systemic failure of our industry. Indeed the exact opposite – we contributed to the stability of the economy.

Our industry is strong and critical to Australia now – and we will be more critical in the future.

There is enough uncertainty in the economy without the Government adding to it.

So the announcement YESTERDAY by the Minister that we will see draft FoFA legislation in September is welcome.

Now we have this timetable, I call on the Government to stick to it. There is no time for more delays.

Stronger Super

Delegates

Between February and July, Paul Costello Chaired an inclusive consultation process into the Government's Stronger Super proposals. Difficult issues were discussed between representatives across the industry.

It is a positive development that all segments of the industry came together through the Costello process to discuss common ground and differences.

Most issues were resolved and recommendations made to the Government.

Two significant issues remain unresolved.

The proposed structure for MySuper requires funds to provide only one MySuper product at the same price for all members.

This means that each superannuation fund can have only one MySuper product and can take no account of the size of the employer or the demographics of the workplace.

One product. One Price. One investment strategy.

Benefits of scale allow large employers to negotiate low costs for their employees, with some corporate superannuation funds providing superannuation for as low as 50 basis points.

In a world where there is a single price for MySuper, funds will be forced to provide the one product at the same price to all workplaces – whether they have 30,000, 3,000, or 300 staff.

As research from Chant West shows, 750,000 Australians will pay more for their super.

It is absurd that the Government's superannuation reforms could result in just one Australian paying more for their superannuation.

And the proposal for a single investment strategy in MySuper means default super cannot by law be tailored to meet the demographic needs or demands of individual workplaces.

This too is an absurdity.

Presently, a younger workplace, such as a supermarket, would typically have a default superannuation investment with a higher exposure to growth assets, whereas an older workplace might have a higher exposure to defensive assets.

The present proposal completely ignores the fact that 25 per cent of corporate superannuation plans currently use a non-standard investment strategy that reflects workplace demographics.

Tailored multiple products were always envisaged by the Cooper Review. It states:

“The Panel also recognises that there might be situations where a master trust could have multiple MySuper sub-funds to reflect the fact that it is serving a range of different employers.

One product, one price, one investment strategy is a retrograde step that will hurt working Australians achieve the best outcomes for their retirement.

The second issue that must be resolved is competition in the default award segment of the market.

With billions of dollars flowing automatically into award default funds, a competitive process to select the default funds would be expected.

But this is not the case. Rather, the current process is completely unacceptable for the scale of investments and their significance to employees.

The only way default funds can be added to an award is through the recommendation and agreement of employer groups and unions.

This process is not only inadequate, but riddled with conflicts of interest.

Many union and employer group representatives who decide which funds will be listed in awards are themselves trustees of the superannuation funds they recommend.

The Government has committed to the Productivity Commission designing a process for the selection of superannuation funds by July 2012.

This is too late.

We call on the Government to send the terms of reference to the Productivity Commission now for a report in early 2012.

The Parliament must have the Stronger Super legislation and the Productivity Commission report in front of it when it legislates.

There is no use commoditising default superannuation in MySuper and then failing to allow full competition in awards.

It would be an extraordinary failure of public policy if the most significant reforms to superannuation since 1992 maintained a monopoly for one section of the superannuation industry and denied the full benefits of competition to millions of Australian workers.

And lastly, we are concerned at the continuing delays in the Stronger Super legislative timetable.

Draft legislation due in June or July has now been delayed till October and it now appears very unlikely the Government will be able to introduce the Bill by February next year.

Delays mean uncertainty, and uncertainty damages confidence.

Delegates

Our industry embraces reforms that improve the professionalism, transparency and the quality of financial advice.

But just as strongly as we support these reforms, we oppose anything that will unnecessarily increase costs, reduce the availability and accessibility of advice, eliminate basic business and consumer benefits of scale and reduce competition.

We acknowledge and applaud the sensible improvements made by the Government through this process.

The Government's changes in a number of areas ensure consumers will continue to receive the benefits of scale and competition when they seek financial advice.

They include:

- The continuation of volume discounts from fund managers to platforms and superannuation funds;

- The guarantee that all volume rebates in existence when the ban commences will be 'grandfathered'. This will ensure the independent advice sector can continue to compete with vertically integrated businesses; and
- The decision to allow renewal of financial advice every two years rather than annually.

However, there remain a number of outstanding matters that are of great concern for the industry and consumers:

These include:

- The exact formulation of the foundation of the reforms - the best interest duty;
- The possible introduction of a statutory compensation scheme; and
- The definition of retail and wholesale clients.

It was particularly pleasing to hear the Minister indicate that he is prepared to reconsider the position on risk commissions in superannuation.

Ensuring consistent treatment on individually advised insurance will:

- Enable Australians to benefit from the tax effectiveness of paying for their life insurance through superannuation;
- Not exacerbate Australia's level of underinsurance by creating a market distortion that does not exist today; and

- Ensure financial advisors can confidently meet their best interest duty to their clients.

Ladies and Gentlemen

Our industry has a duty to ensure bad practices are eliminated.

Today I am announcing that the FSC is addressing the practice of churning.

Churn is a practice where an adviser arranges a new life insurance policy for a client or group of clients that does not deliver a net and material benefit to them.

Advisers that engage in churning do so to access the upfront commission on the sale, in the knowledge that the new policy provides essentially equivalent cover and benefits for the client, to the policy that has been replaced.

The practice also creates cost pressures for life insurance premiums that are simply wasteful and unnecessary.

This practice is not in the interests of consumers and the FSC has taken the clear view that it is inconsistent with the statutory requirement for financial advisers to act in their clients' *best interests*.

While this practice is not widespread, it is significant enough an issue to warrant industry action.

The FSC Board has approved the development of a binding FSC Standard to address churning. This Standard will be developed in consultation with the industry, government and regulators. We aim to have a Standard finalised in 2012 with an implementation date consistent with the commencement of FoFA.

The FSC is clear that the time has come to address the practice of “churn” in the interests of consumers, and to support financial advisers and a sustainable life insurance industry in Australia.

Delegates

It is disappointing to note that not all participants in the FoFA reform process have embraced transparency.

You will no doubt have seen in recent days the launch by Choice of the “Big Bank Switch”.

Through “Big Bank Switch” Choice will provide warm leads to a broker who will in turn broker a volume discount for mortgages.

In return for providing these leads it is reported that Choice will receive a 30 per cent share of the broker’s commission.

So Choice has a few questions to answer:

- Is Choice receiving commissions?
- Is Choice receiving asset based fees?

- Is Choice rebating all and any fees they receive back to consumers?
- Is Choice providing financial advice?
- Is the organisation Choice has partnered with with not-for-profit?
- Has Choice backflipped from their position outlined in their submission to the Rippol Inquiry, and I quote - "*Commissions create an unacceptable conflict of interest.*"; and lastly
- When Choice says they will disclose all, have they changed their position from their submission to Rippol, and I quote again - "*Choice does not believe that conflicts of the magnitude presented by commissions can be addressed through disclosure.*"

We look forward to their answers.

Delegates

I want to turn now to the debate on the future of retirement incomes.

We have the best private pension system in the world.

Despite all the criticisms, the visionary decisions of twenty years ago have provided Australia and Australians with an extraordinary buffer against hardship.

Government heavily regulates two of the three phases of our system:

- they tell us how much we must save; and
- they define the rules by which it must be saved.

In comparison, the third phase – drawdown - is unregulated.

Australians can, if they wish, spend their lumps sum overnight and go on the full aged pension for the rest of their lives.

Now while this doesn't happen in practice – particularly the larger the lump sum – too many Australians do run out of superannuation too early.

But as the three intergenerational reports show, we face – as Peter Costello put it – a “demographic date with destiny”. In essence, paraphrasing Wayne Swan, we can't afford to pay for the wave of retirees heading our way.

The pension, health and aged care systems cannot support our future retirees in the manner they expect and deserve.

Treasury has the right to force this debate.

So if we don't, we will have a policy solution foisted upon us. We are living longer – every five years an Australian born will live a year longer – pushing out life expectancy.

But the cost of growing old is high. We live longer courtesy of expensive medicine and pharmaceuticals.

And with fewer Australians working to fund more Australians retiring, the numbers simply don't add up.

For this reason, we must bring out the sacred cow for slaughter and deal with the issue of lump sum payments.

And as this policy change will be phased in, the sooner we start the better.

The industry is already actively providing solutions to this challenge, most notably in the form of annuities. Allocated pensions have long been the answer for many.

We see a world where superannuation funds no-longer simply sign a cheque at 60, but have a relationship with their members from 18 to 80.

Prepaid aged care. Prepaid annuities. We are not advocating product solutions or product compulsion. We are advocating reform. These could include pre-paid health insurance, pre-paid aged care or pre-paid annuities.

Many will say that it is politically unpalatable to tell people how to spend their superannuation.

But it is no-more radical – and no less important – than telling people to spend their income as we do with the superannuation guarantee.

We need the vision of 1992 in 2011.

Delegates

Thank you for your support of the Financial Services Council.

Our industry does good things for Australians. We increase their wealth. We secure their retirement. We insure their lives.

We – you - can be proud of the work we do and I thank you for your commitment.

Thank you and I look forward to your questions.