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Consumer Confidence?

Richard Gilbert, CEO, IFSA.

Today, I will make three points:

- 1) That consumer confidence is high
- 2) That consumer confidence is justified
- 3) That there is really no need at this point in time for further substantial reform in financial services legislation.

Overview

IFSA has regular visits from international delegations comprising legislators, regulators and other funds management associations so that they can learn from the functioning and experiences of the 'Australian model', which in so many aspects, leads the world.

The fact that the 'Australian model' is so highly regarded internationally should in itself be a sound basis for consumer confidence in our financial services system.

What makes our system such a sound one?

- Australia has bi partisan political support for our system
- our private sector funds are fully funded and cannot operate in any other way

- disclosure is transparent across all products
- fee structures are competitive by world standards
- we have had virtually no fund failure
- we have fund and investment choice
- we have a favourable super fund tax regime

Quote: *“It is undeniable that the Government’s agenda for regulatory reform for financial services and products over the last decade has been ambitious, but it has meant that Australia has a regime that is globally respected”.* **ASIC’s Super Strategies: 2006–07, An Address by Jeffrey Lucy AM, Chairman, Australian Securities and Investments Commission to The Association of Superannuation Funds of Australia, 6 September 2006, Sydney, Australia.**

I would venture to suggest that we are perhaps the most regulated industry in Australia, with the cost of compliance now comprising some 15% of total costs to our members according to IFSA research.

I note that ASFA released their best estimates as to the cost of regulation the other week and it came in at around 10%, so the Australian industry is spending somewhere between 10-15% of their operating costs complying with legislation and regulation- which should also be cause for high levels of consumer confidence.

The very strength of our industry is that it has been able to innovate and operate in a free market system and yet the Australian industry *still* has a strong regulatory framework for the protection of investors – and, I might add, for businesses themselves.

Financial Advice

Australian consumers overwhelmingly feel well served by their financial planners.

IFSA's 2006 Investor Sentiment research which is to be released next week continues to show that levels of satisfaction are very high among those with a financial planner.

In total 94% of those currently seeing a financial planner say that are satisfied with their experience. This increases for those with an active relationship, and drops to 88% for those who see their planner less frequently. We have also seen the overall levels of satisfaction increase over the last year!

Our research, conducted for IFSA by TNS, also shows that four out of five people feel better off as a result of using a financial planner, and that having a planner helps people to feel better prepared for retirement, have greater confidence that they're going to reach their financial goal and a better control of their finances.

Indeed, those with advisers are significantly more likely to feel confident that they will save enough for their retirement, are less likely to worry about outliving their savings and are less likely to hope to come into money in order to fund a comfortable retirement. In short – those with a planner are more likely to sleep soundly at night.

A challenge for both Government and industry is that more than half (52%) of those under the age of 30 years, say they *“hope to come into money so that I have enough money for retirement”*.

With the number of people saying they are seeing a financial planner increasing over the last year, and with such high levels of satisfaction and confidence, we might surmise that the negative perceptions are far more likely to come from either those who have never had any dealings with planners, or from that small percentage who may have a negative experience.

I should also note that disputes against financial planners for poor quality advice were less than 150 in 2005. This looks particularly impressive when you benchmark it against the 17,000 to 18,000 or so planners in Australia, many of whom have more than 200 client interactions in any one year. The Westpoint saga will add to these numbers, however.

One of the main issues facing financial planners is the need to provide appropriate and ‘reasonable’ advice in an environment where most superannuation fund members are responsible for their choice of superannuation provider. This has been a

challenge given the application of the law which we note will be addressed by FSR Refinements Mk2.

It is important in product choice that the full gamut of decision factors is taken into account. Non-price factors such as returns, brand, security, life cover, and service levels must also be taken into account when advising a client about super funds.

IFSA had Chant West Financial Services conduct the most comprehensive research of its type yet undertaken into death and disability insurance cover in super funds.

The research found that insurance is a much bigger issue than previously thought and found that premiums can be up to 22 times greater in one fund compared to another for the *same level of cover*.

The research also found that some members may be entitled to over half a million dollars more life insurance coverage without medical evidence in one fund as compared to another.

There is significant variation in insurance premiums across funds. In addition, some members of retail corporate funds (in an employer plan with over 200 members) are entitled to automatic cover worth up to \$600,000 – without having to undergo a medical examination, so surely, factors such as these will influence a recommendation to stay with a fund or change to another with a tailored range of features that is in the client's best interest?

It's not all about the cheapest being necessarily the best for a client.

ASIC called for industry comment on the issue of Conflicts of Interest by June this year. Many submissions were made. IFSA's submission recommended that the law needs to recognise that consumers are making multi-layered investment and product decisions where price, along with trust and confidence in the fund manager, should be key consideration factors. We expect that there will be further discussion and engagement on this matter in coming months.

Another reason for Australians to feel confident is that the environment in which financial planners will operate in coming years looks good. The AFG Global Funds Management Index shows that, on a per capita basis, Australians hold \$44,911 in managed funds, which is 15% more than the US, who came in second in a global survey.

Add to this the fact that the last Federal Budget removes a number of the technical complexities surrounding superannuation and retirement incomes and planners will be in a better position to 'coach' customers and help them to meet their long term savings, risk protection and retirement aspirations.

Legislative or Statute Risk

Something we don't really measure in industry confidence surveys is legislative or Statute Risk.

An 18 year old starting work today will probably face 16 or 17 Federal elections before they retire. Retirement savings policy needs to be bi-partisan, which it mostly is....but in a timeframe of 30-40 years, as we have seen, political parties can spring from nowhere and disappear again just as quickly, but still have incredible leverage and influence on policy if the political climate is to their advantage.

If I recall correctly, the Greens once held up Prime Minister Paul Keating's Budget for 3 months while they bickered and worked through a wish-list when they had the balance of power back in the early nineties- and of course the Australian Democrats more recently used their clout to bring about and shape A New Tax System, reflecting some of their pet issues and concerns.

To their credit, the Democrats and independents have been fairly responsible on retirement savings policy, but to further improve consumer confidence, retirement savings policy needs to become what the Americans call "*a third rail issue*".

In some rail networks it is the third rail which delivers the power to drive a train.

If you are foolish enough to *touch* the third rail - you're dead. And so it should be for any political party tempted to milk our retirement savings system. Retirement savings by its very nature, involves decades of savings and investment on the part of working people.

I note that ANOP recently conducted some polling for ASFA which found that two-thirds of Australian investors were cynical about politicians keeping super as a “valued investment option”.

Apparently, just 4% of respondents to the survey were “very confident” that the recent changes such as dropping of RBL’s and exit taxes would remain in place.

ANOP pollster, Rod Cameron, was quoted as saying: “Achieving more widespread behavioural change will require, at the very least, confidence in policy permanence”.

We can do *THAT*, when retirement savings policy becomes a third rail issue.

I would now like to make some comments on FSR.

FSR and consumer confidence

Since the advent of the SGC system we have had a cascade of reforms in favour of consumers.

The FSR regime strives to offer maximum protection to consumers, while still allowing providers of financial services to devise innovative financial solutions for investors.

The industry jury and I also believe the consumer jury have returned a verdict that FSR has been overall good news for investors.

We have a regulatory regime which has few peers amongst OECD countries. In fact, I would challenge the critics of FSR to find a regime which has the following regulatory strengths:

- A single product licensing regime;
- A single regime for regulating advice;
- A national disputes resolution system *at no cost* to customers;
- Disclosure of all fees charges and commissions across all financial products under the FSR umbrella; and
- Finally and most importantly – low levels of customer disputation and high levels of customer satisfaction.

Repeatedly, customer research shows that “Good reputation counts most” in the minds of a customer. It is trust which underpins consumer confidence and IFSA looks constantly at the drivers of confidence and the drivers of trust in the Australian financial services system.

I should also add that IFSA has our own Standards and Guidance Notes that we require members to adhere to - and I believe this additional layer of rules has protected consumers.

Complaints under FSR about aspects of the industry are the most tangible measure of overall consumer health and well-being.

Although the dispute resolution process is seen by some as being too harsh, it is one of the critical underpinnings of FSR and it needs our industry’s support.

Australians are not complaining about their investment experiences at anywhere near the levels of those, for example, in the UK or USA .

Compare our Australian industry with complaints to the British Financial Ombudsman Service between 2003 and 2005.

A leap from just over 40,000 complaints in 2003 to 100,000 per year in 2005 suggests that British consumers are not happy under *their* regulatory regime.

I think our most vociferous industry critics would be quite justified in dishing it up to our industry if our Australian complaint graphs were heading in the same direction. They are not.

In the US, a report just last month on the 12th October 2006, in the *USA Institutional Investor News* had the headline: "E-mail Complaints to SEC More Than Double" I'll say that again. More than doubled.

Complaints in writing to the Securities and Exchange Commission more than doubled to nearly 1.4 million in 2006, and represented the largest increase between fiscal years so far.

Complaints also more than doubled in 2005 compared with 2004, but the jump in 2006 was considerably higher than the 51.5% increase the year before, according to the SEC's Office of Internet Enforcement.

The SEC received 618,584 complaints in 2005. And the USA has almost the same number of managed funds as we have in Australia.

Now let's turn to financial product failure in Australia.

The Australian Superannuation Complaints Tribunal that looks after the interests of more than *26 million* superannuation account holders in this country had less than 1300 written complaints in 2003.

By 2005, the number of complaints to the SCT had fallen to around 1100 - or to put this into perspective- around 1 in 29,000 super accounts or 3 complaints per day.

In 2005, the Financial Institutions Complaints Service (FICS) – at least in relation to the industries represented by IFSA, received 525 life insurance and 156 managed investment complaints.

IFSA has over 135 members. In the case of managed funds, those 156 complaints about managed investments represent about 1.15 complaints per member.

Imagine an association representing airline companies or car manufacturers or the hospitality industry who had an average of formal complaints against the industry of just slightly more than 1 complaint per member.

When you consider that there are around 9,000 managed funds in Australia – almost as many as in the USA with a population of 300 million, I think we are doing very well by comparison.

Even ASIC appears to be having difficulty getting people to complain, despite sending the 306 ‘*victims*’ of the Shadow Shopping exercise letters inviting them to complain about any aspect of the advice they got during the exercise with which they were unhappy.

According to an article in IFA magazine last week, the corporate regulator was, quote: “*met with a wall of silence from consumers after the June survey which was intended as a follow-up to April’s shadow-shopping survey*”. Not a single ‘shadow-shopped’ client appeared concerned enough about the advice they had received to write back to ASIC with a complaint. Not a single one.

For the record, I can recall three complaints sent directly to IFSA in the past year from people with a complaint about how our financial services system is run.

I can further reveal that in an investor survey conducted for IFSA just a couple of weeks ago, superannuation funds topped the list of “Who people trusted the most” by way of industry sectors.

At number 1 with 46% were superannuation funds, followed by fund managers, airlines and then financial planning companies.

I think that it is fair to say that when your industry is regarded as more than 3 times more trustworthy than phone companies, oil companies and media companies and *about 7 times more trustworthy* than real estate agents, we must be doing something right.

Even ASFA's recent polling finds that 9 out of 10 people are happy with their super funds.

ASIC protecting consumers

Also assisting in helping to build consumer confidence is ASIC, who concluded enforcement proceedings against 352 people or companies, 94 per cent successfully in 2005/6. Of course, not all of these people worked in financial services.

In 2005-6, 27 people were convicted of criminal activity and 17 people went to jail as a result of ASIC legal action.

The number of people banned from financial services totalled 27, which is an 8% increase or 2 people more than last year's shame file of 25 banned individuals. These individuals will never work in financial services again.

Consumers can also be confident that their protector, ASIC, is well funded.

In the words of the Hon Chris Pearce, MP, Parliamentary Secretary to the Treasurer's *'Commonsense Regulation'* address to ASIC Summer School (17/02/06):

"Over the last ten years, the Howard government has increased ASIC funding by 74 per cent to \$223 million. I am committed to maintaining the high level of funding for ASIC which enables it to be recognised internationally as a leading financial sector regulator",

Australian investors have every reason to be confident in our industry and I would like to conclude with the latest findings from our TNS investor sentiment survey which demonstrate the investor sentiment has improved over the last year.

As part of our ongoing research we have been tracking the importance investors place on key aspects of their investments, as well as how their investment managers are performing.

The 2005 results shows that investors feel that trust, delivering on a promise, long term returns and fees and charges are the most important things to them. It also shows that the industry is performing well on the trust measure and on reputation. But there was clearly more we had to do on the performance of fees and charges and promoting the importance of advice.

The last year has been an interesting one for the industry, with much commentary on both fees and advice, yet our 2006 research shows that investor sentiment has improved in all key measures.

There has been a general improvement in sentiment all round over the last year. Good market conditions certainly have played their part in this improvement – but it is also a result of an industry which is better understanding its customers and their priorities.

In conclusion – I am not sure on what basis our industry critics rely, but according to these gauges, investor confidence levels are high and indeed improving.

Thank you.