



Kelly O'Dwyer
Minister for Small Business
Assistant Treasurer

SPEECH
FINANCIAL SERVICES COUNCIL BT POLITICAL BREAKFAST SERIES
THE IVY, SYDNEY
16 NOVEMBER 2015

E&OE

I very much appreciate the opportunity to speak with you today about a subject that is the life blood of our economy – our financial system.

A strong and stable financial system is critical to Australia's prosperity and the prospects of all Australians. After all, the biggest decisions that we will make in life are all supported by our financial system – whether it is buying a home, starting a business or providing for our retirement.

The Turnbull Government is committed to providing a financial services framework that encourages economic growth, innovation and investment, and one that is fair to both consumers and businesses. In particular, the framework must also be sufficiently robust to ensure the resilience of Australia's banking system. It must deliver a strong superannuation system, critical to the retirement futures of all Australians. It must also be agile enough to respond to a financial system that is evolving, with new payment methods, innovative funding sources and digital business models changing the way we as consumers engage. Finally, it must open opportunities to enhance productivity in the system and the broader economy.

The Coalition made an election commitment to conduct a root and branch examination of Australia's financial system. This was delivered with the final report of the Financial System Inquiry, led by David Murray.

Overall, the Murray Inquiry found that Australia's financial system is performing well and has many strong characteristics. However, it also found that there is room for improvement and made recommendations to better position the Australian financial system for the future.

The Prime Minister, Treasurer and I released the Government's response to the FSI only a few weeks ago on 20 October 2015 with the Government accepting the overwhelming majority of the Inquiry's recommendations.

It is important to note here that the FSC has been an active, thoughtful and constructive contributor to this discussion and I would like to place on the record my thanks to FSC members for continuing to share your insights and expertise.

The Government's financial system program sets out a blueprint for how Australia will respond to challenges and opportunities over the coming years. It does not seek to make the financial system 'future proof', but instead focuses on embracing financial system innovation and meeting the future with confidence that our financial system is the best in the world.

Superannuation and Retirement Incomes

The Government's financial system program includes a number of measures that will improve the alignment, level of competition, efficiency, transparency and governance in the superannuation system. This is critical. After all our superannuation system holds around \$2 trillion in assets, growing to more than \$9 trillion by 2040. At the same time our population is ageing – with the number of people aged over 65 years expected to double by 2055.

More than ever, we need a superannuation system that delivers for members.

We will enshrine the objective of the superannuation system in legislation. This will help align policy settings, industry initiative and community expectations. We agree that more needs to be done to improve the overall efficiency and level of competition in the superannuation system. Improving the efficiency of the superannuation system will improve after-fee returns for fund members, and all Australians stand to benefit from this.

We will task the Productivity Commission to develop criteria to assess the efficiency and competitiveness of the superannuation system, as well as develop alternative models for allocating default fund members to products. In time we will task the Productivity Commission with reviewing the efficiency and competitiveness in the system using the criteria it has developed. While the Commission undertakes these reviews, the Government will continue to

explore additional measures to improve efficiency and competitiveness in the accumulation phase of superannuation.

In September we introduced legislation into Parliament to strengthen superannuation governance arrangements to enhance the integrity of the superannuation system. After a three year transition period, all superannuation funds – corporate, industry, public sector and retail (except self-managed superannuation funds) – will be required to have a minimum of one-third independent directors on their trustee board, including an independent chair. This legislation will bring superannuation funds into line with corporate governance principles applicable to ASX listed companies such as banks and insurers. Despite misleading claims by some vocal agitators against the legislation in the Senate, it will not preclude equal representation of the remaining two-thirds of the trustee board, nor will it change successful investment strategies. What it will do is provide increased scrutiny and transparency.

It is critical that people are able to make retirement savings decisions that are best for them and their future. Around 2 million Australians are currently stopped from choosing which fund their compulsory employer superannuation will be paid into because they are covered by an enterprise bargaining agreement or workplace determination. The Government will extend choice of fund arrangements to more employees under enterprise agreements and workplace determinations made from 1 July 2016, consistent with the recommendation of the Inquiry. Not having choice of fund can result in employees having multiple funds. This means employees can end up paying multiple fees and insurance premiums, reducing their retirement income. More choice will promote member engagement, and reduce fees through greater competition.

We will take action to make it easier for retirees to access retirement income products that better meet their needs. The Government will facilitate trustees of superannuation funds pre-selecting comprehensive income products for retirement (CIPRs) for their members. CIPRs are composite products that provide high incomes, flexibility and manage longevity risk. The pre-selection of these products will help guide members as they approach retirement and this helps retirees achieve higher incomes throughout their retirement.

The Government is also committed to improving transparency and comparability of information so consumers can make informed decisions and drive greater competition in the industry. The Government is currently in the process of finalising exposure draft legislation and regulation ahead

of a public consultation on a revised framework for the choice product dashboard and portfolio holdings disclosure regimes. The Government is aiming to strike the right balance between minimising the compliance burden on superannuation funds, and enhancing transparency and comparability of information for consumers. You will see this imminently.

Innovation

Technology-driven innovation is transforming the financial system and has the potential to deliver significant efficiency benefits and improve outcomes across the financial system. Take crowd-sourced equity funding (CSEF) as an example.

In Canada, the United Kingdom, the United States of America and New Zealand, small businesses and start-ups are able to use technology to reach new investors to finance or expand their businesses. Mum and Dad investors are able to buy shares in these businesses through licensed intermediaries.

Right now in Australia, start-ups and small businesses cannot practically access retail investors due to significant upfront and ongoing compliance costs and red tape.

Changing this will unlock innovation and growth.

The Government's CSEF will be focused on Australian public companies with annual turnover and gross assets of less than \$5 million so that the benefits are targeted.

In addition, whilst the US model caps the maximum funds that an issuer may raise to \$1 million in any 12 month period, our CSEF will be capped at \$5 million. This means that the founders of a microbrewery in Tasmania can get their business off the ground with the investment of Mums and Dads in places like Albury and Sydney.

Of course, appropriate consumer protection is essential including the licensing of intermediaries, risk warnings to investors and a 5 day cooling off period for the investment.

The Government has previously consulted stakeholders on a regime for crowd-sourced equity funding, and will continue to consult while bringing legislation before the Parliament before the end of 2015. We will also consult on options to facilitate crowd-sourced debt funding.

Consumer outcomes

The financial system program includes a range of measures to ensure that consumers receive fair treatment from advisers and the providers of financial products and services.

The Government's financial system program also commits to raising professional, ethical and education standards for financial advisers. Subject to transitional arrangements, advisers will be required to hold a degree, pass an exam, undertake continuous professional development, subscribe to a code of ethics and undertake a professional year before they can advise clients. These higher standards will place financial advice on a similar footing to other professions and, in doing so, increase consumer trust and confidence in the sector. I appreciate the FSC's ongoing engagement in this space and I thank the FSC in advance for continuing to progress this reform – this will be vital to ensure that industry continues to work together and with Government to establish an independent standards-setting entity which the Government will recognise in legislation. Legislation will be consulted upon this year.

We have also been working with industry to develop measures to improve remuneration practices in the life insurance sector. As part of our financial system program we have adopted the final industry reform proposal which I announced earlier this month to improve the long term sustainability of the sector while at the same time better aligning the interests of advisers, insurers and consumers.

In September we passed legislation through the Parliament to fix unclaimed moneys, restoring the time bank accounts and life insurance policies can be inactive, before they are transferred to government, from three years to seven years. This delivered on our commitment to protect Australians' savings accounts and reverses the decision of the previous Government.

Resilience and regulatory system

Finally, we have confidence in Australia's financial regulators, and endorse APRA and the steps it is taking on capital requirements to ensure that our banks are unquestionably strong. Australia's banks are at the core of our stable financial system. A failure at the core of our financial system would have catastrophic impacts for the broader economy.

The Government is taking additional steps to support the resilience of our financial system by giving Australia's financial regulators the tools they need to be able to manage any future financial crisis. Industry has told us about reforms that are needed in relation to client monies and over-the-counter derivatives, and the financial system program includes action on these.

Strong regulators with the right expertise are critical to keeping our financial system operating smoothly, and to providing consumers and industry with confidence when they interact with financial firms.

We are already conducting a capability review of ASIC, and are also consulting on a possible industry funding model for ASIC.

We will strengthen the focus on competition in the financial system by explicitly including consideration of competition in ASIC's mandate. We will also increase the accountability of our regulators by increasing annual report requirements for reviewing how they have performed against their mandates. The Financial Sector Advisory Council will be reconstituted and new members appointed to give industry a strong voice in advising government on the performance of the financial regulators.

Concluding remarks

The Government is committed to ensuring Australia's financial system is the best in the world.

The financial sector is one of the largest in the Australian economy, and is a crucial cog in the wheel of the broader economy. The Government's financial system program will enable the system to meet its fundamental role in funding a more competitive and productive economy that is able to embrace uncertainty and encourage innovative activity.

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Media Contact: Kerri Griffiths, Sarah Nicholson