



MEDIA RELEASE

Thursday, 8 September 2022

FSC STATEMENT ON COMPENSATION SCHEME OF LAST RESORT

The Financial Services Council (FSC) welcomes the introduction of legislation for a compensation scheme of last resort (CSLR).

CEO of the FSC Blake Briggs said: "The Government is right to take a cautious and prudent approach to the final design of the proposed compensation scheme as the scheme is rife with moral hazard that must be carefully managed.

"The financial services industry recognises consumers impacted by financial advice failures often incur significant losses that should be compensated but at the same time this must be balanced with the fact the companies funding the scheme take responsibility for the quality of their advice and do not contribute to unpaid claims.

"To avoid incentivising unnecessary risk taking by unscrupulous firms, it is necessary to place sensible limits on the extent to which responsible financial service providers are expected to underwrite the misconduct of their competitors.

"The Government has got the essential features of the scheme correct, including a \$150,000 cap on individual claims and a focus on financial advice failures.

"Our collective goal should be a compensation scheme that is rarely required as adequate capital levels and professional indemnity insurance obligations for financial advisers result in minimal unpaid Australian Financial Complaints Authority (AFCA) determinations."

Recent advice failures appear to have increased the backdated costs of the compensation scheme significantly, reinforcing the FSC's view that costs could easily get out of control if the scheme was not appropriately targeted and controls on the design of the scheme are necessary.

"The Government must ensure the scheme is efficiently operated or Australia will end up like the UK, where financial service companies and their customers are facing a billion pounds in annual costs," Mr Briggs added.

The FSC also recommends that AFCA takes steps to ensure all claims are eligible and the causes of losses are appropriately attributed, the scheme operator must fully enforce subrogation rights, and these provisions apply equally to backdated claims as they would when the scheme is operational.

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About the Financial Services Council

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services. Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, life insurers and financial advice licensees. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research

houses. The financial services industry is responsible for investing more than \$3 trillion on behalf of over 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is one of the largest pools of managed funds in the world.