Response to Financial System Inquiry Final Report

March 2015

National Seniors
Australia

Table of Contents

1 Introduction

National Seniors Australia welcomes the opportunity to respond to the recommendations of the Financial System Inquiry (FSI) final report.

The Murray Inquiry has provided a timely opportunity to take stock of the impact of the Global Financial Crisis (GFC) and other significant financial and technological developments that have taken place since the earlier Wallis and Campbell inquiries established the current regulatory philosophy and framework.

The Inquiry has also brought into sharp focus the implications of developments in Australia's retirement income system since the introduction of the superannuation guarantee. In future, virtually all Australians will have a stake in the performance of the superannuation system and will increasingly rely on high quality and genuinely independent financial advice to sustain them through their retirement years. In the context of these developments, the consumer voice is now more important than ever before in the shaping of financial policy and regulatory settings.

As the consumer lobby for the over-50s, National Seniors has a significant interest in a fair, efficient and stable financial system. Older Australians represent a large and growing population of users of financial services, with those retired or approaching retirement increasingly reliant for their wellbeing on financial products, fund managers and financial advisers and on the safety and stability of the system as a whole.

National Seniors is Australia's largest organisation representing the interests of those aged 50 and over, with around 200,000 individual fee-paying members nationally. This broad based support enables National Seniors to provide a well informed and representative voice on behalf of its members and contribute to public education, debate and community consultation on issues of direct relevance to older Australians.

2 Executive Summary

While Australia's financial system has generally served the nation well, the GFC, together with a series of domestic financial failures and scams, have revealed some systemic weaknesses, pointing to the need to shift the balance of regulation towards greater stability and consumer protection. Even after the Stronger Super and Future of Financial Advice reforms, Australia's superannuation system still lacks an appropriate emphasis on protecting retirees from investment, inflation and longevity risks, while problems of poor quality and conflicted remuneration continue to dog the financial advisory sector.

National Seniors supports the general thrust of the Financial System Inquiry's (FSI) final report and welcomes its strong focus on consumers and transparency.

In light of the key issues for older Australians raised in our submission to the Inquiry Panel, we particularly welcome the report's emphasis on:

- strengthening safety and stability in the wake of the Global Financial Crisis (GFC)
- addressing investment, inflation and longevity risk in retirement
- improving the quality and independence of financial advice, and
- recognizing access needs when adapting regulation to new technologies.

Our response to the final report recommendations, summarized below, focuses on these key issues.

Summary of Responses to Final FSI Recommendations

FSI Recommendation	*National Seniors Australia Response*
1. **Capital levels** Set capital standards such that Australian authorised deposit-taking institution capital ratios are unquestionably strong	***Support***
2. **Narrow mortgage risk weight differences** Raise the average internal ratings-based (IRB) mortgage risk weight to narrow the difference between average mortgage risk weights for authorised deposit-taking institutions using IRB risk-weight models and those using standardised risk weights	***Support***
3. **Loss absorbing and recapitalisation capacity** Implement a framework for minimum loss absorbing and recapitalisation capacity in line with emerging international practice, sufficient to facilitate the orderly resolution of Australian authorised deposit-taking institutions and minimise taxpayer support.	***Support***
4. **Transparent reporting**	***No response***
5. **Crisis management toolkit**	***No response***
6. **Financial Claims Scheme** Maintain the ex post funding structure of the Financial Claims Scheme for authorised deposit-taking institutions.	***Support*** *National Seniors strongly opposes the imposition of an ex ante levy to fund the Financial Claim Scheme as this would amount to a tax on bank deposits. To reduce the potential cost of the scheme, National Seniors **recommends** consideration be given to reducing the threshold to better target the scheme to household depositors*
7. **Leverage ratio**	***No Response***
8. **Direct borrowing by superannuation funds** Remove the exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds	*Rather than an outright prohibition, National Seniors **recommends** consideration is given to placing restrictions on borrowing within SMSFs to address risk and prevent abuse.*
9. **Objectives of the superannuation system** Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term	***Support*** *National Seniors **recommends** these objectives be set within the context of a comprehensive retirement income strategy that considers taxation, social security and financial system interactions.*
10. **Improving efficiency during accumulation** Introduce a formal competitive process to allocate new default fund members to MySuper products, unless a review by 2020 concludes that	***Support*** *National Seniors questions whether it is necessary to wait until 2020* ***to***

the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system	*implement this reform.*
11. **The retirement phase of superannuation** Require superannuation trustees to pre-select a comprehensive income product for members' retirement. The product would commence on the member's instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed	***Support***
12. **Choice of fund** Provide all employees with the ability to choose the fund into which their Superannuation Guarantee contributions are paid	***Support***
13. **Governance of superannuation funds** Mandate a majority of independent directors on the board of corporate trustees of public offer superannuation funds, including an independent chair; align the director penalty regime with managed investment schemes; and strengthen the conflict of interest requirements	***Support***
14. **Collaboration to enable innovation**	***No response***
15. **Digital identity**	***No Response***
16. **Clearer graduated payments regulation**	***No Response***
17. **Interchange fees and customer surcharging**	***No Response***
18. **Crowdfunding**	***No Response***
19. **Data access and use** Review the costs and benefits of increasing access to and improving the use of data, taking into account community concerns about appropriate privacy protections	***Support***
20. **Comprehensive credit reporting**	***No Response***
21. **Strengthen product issuer and distributor accountability** Introduce a targeted and principles-based product design and distribution obligation	***Support***
22. **Introduce product intervention power** Introduce a proactive product intervention power that would enhance the regulatory toolkit available where there is risk of significant consumer detriment	***Support** empowering ASIC to intervene to require or impose amendments to marketing and disclosure materials, warnings to consumers, labelling or terminology changes and distribution restrictions.* ***Defer** consideration of product banning powers pending analysis of the effectiveness of the other measures.*

23. **Facilitate innovative disclosure** Remove regulatory impediments to innovative product disclosure and communication with consumers, and improve the way risk and fees are communicated to consumers	***Support,*** *subject t**o** ensuring this does not preclude the use of traditional channels of communication that may be more accessible to older investors*
24. **Align the interests of financial firms and consumers** Better align the interests of financial firms with those of consumers by raising industry standards, enhancing the power to ban individuals from management and ensuring remuneration structures in life insurance and stockbroking do not affect the quality of financial advice.	***Support***
25. **Raise the competency of advisers** Raise the competency of financial advice providers and introduce an enhanced register of advisers	***Support****, and bring forward dates of commencement to as soon as reasonably practicable*
26. **Improve guidance and disclosure in general insurance** Improve guidance (including tools and calculators) and disclosure for general insurance, especially in relation to home insurance	***Support***
27. **Regulator accountability** Create a new Financial Regulator Assessment Board to advise Government annually on how financial regulators have implemented their mandates. Provide clearer guidance to regulators in Statements of Expectation and increase the use of performance indicators for regulator performance.	***Support***
28. **Execution of mandate** Provide regulators with more stable funding by adopting a three-year funding model based on periodic funding reviews, increase their capacity to pay competitive remuneration, boost flexibility in respect of staffing and funding, and require them to undertake periodic capability reviews	***Support***
29. **Strengthening the ASIC's funding and powers** Introduce an industry funding model for the Australian Securities and Investments Commission (ASIC) and provide ASIC with stronger regulatory tools.	***Support*** *National Seniors **recommends** the industry funding model incorporate a specific levy to fund financial counselling and literacy initiatives for consumers*
30. **Strengthening the focus on competition in the financial system** Review the state of competition in the sector every three years, improve reporting of how regulators balance competition against their core objectives, identify barriers to cross-border provision of financial services and include consideration of competition in the Australian Securities and Investments Commission's mandate	***Support***
31. **Compliance costs and policy processes** Increase the time available for industry to implement complex regulatory change. Conduct post-implementation reviews of major regulatory changes more frequently	***Support***
32. **Impact investment**	***No Response***

33. **Retail corporate bond market** Reduce disclosure requirements for large listed corporates issuing 'simple' bonds and encourage industry to develop standard terms for 'simple' bonds.	***Support***
34. **Unfair contract term provisions**	***No Response***
35. **Finance companies** Clearly differentiate the investment products that finance companies and similar entities offer retail consumers from authorised deposit-taking institution deposits	***Support***
36. **Corporate administration and bankruptcy**	***No Response***
37. **Superannuation member engagement** Publish retirement income projections on member statements from defined contribution superannuation schemes using Australian Securities and Investments. Commission (ASIC) regulatory guidance. Facilitate access to consolidated superannuation information from the Australian Taxation Office to use with ASIC's and superannuation funds' retirement income projection calculators.	***Support***
38. **Cyber security**	***No Response***
39. **Technology neutrality** Identify, in consultation with the financial sector, and amend priority areas of regulation to be technology neutral. Embed consideration of the principle of technology neutrality into development processes for future regulation. Ensure regulation allows individuals to select alternative methods to access services to maintain fair treatment for all consumer segments	***Support***
40. **Provision of financial advice and mortgage broking** Rename 'general advice' and require advisers and mortgage brokers to disclose ownership structures.	***Support***
41. **Unclaimed monies** Define bank accounts and life insurance policies as unclaimed monies only if they are inactive for seven years.	***Support***
42. **Managed investment scheme regulation** Support Government's review of the Corporations and Markets Advisory Committee's recommendations on managed investment schemes, giving priority to matters relating to: • Consumer detriment, including illiquid schemes and freezing of funds. • Regulatory architecture impeding cross-border transactions and mutual recognition arrangements.	***Support***
43. **Legacy products**	***No Response***
44. ***Corporations Act 2001*** **ownership restrictions**	***No Response***

3 Key Issues for Senior Australians

While acknowledging that a fair, efficient and stable financial system is critical to the wellbeing of all Australians, National Seniors' submission to the Financial System Inquiry urged the Inquiry Panel to give particular attention to the following five key issues of significance to older Australians:

- rebalancing financial system objectives to give greater weight to safety and stability
- managing growing individual exposure to financial risk
- addressing longevity risk, including removing impediments to retirees converting non-superannuation assets into retirement income streams
- lifting the quality and independence of financial advice, and
- managing the impacts of technological change to ensure access for all consumers

National Seniors' concerns in each of these areas are outlined briefly below.

3.1 Rebalance system objectives

While the aftermath of the GFC has seen action taken to strengthen prudential regulation of financial institutions to address safety concerns, a philosophy of light-handed disclosure regulation still underpins much of the regulation of financial markets and financial advisers. However, the series of domestic financial failures that have occurred over the last decade provide ample evidence that disclosure, education and advice alone are insufficient to protect consumers in an increasingly complex financial system. The retirement savings of many older Australians have been irreparably damaged by these events.

In light of these events, National Seniors considers there is a need for some rebalancing of the system of financial regulation towards greater stability and safety for end users.

3.2 Address growth in individual exposure to financial risk

Among the more concerning trends since the current financial regulatory architecture was put in place is the growth in the exposure of individuals and households to market risk. This is being driven by a retirement incomes policy that relies on a mix of compulsory and voluntary superannuation savings to shift Australians progressively towards greater self-reliance in the post retirement years

Together with rising longevity risk (discussed further below), this is driving a substantial reallocation of the burden of financial risk from government and financial institutions to households. If the retirement income system is to achieve its aim of making older Australians more financially independent, there must be action to address current impediments to the management of market risk for current and future superannuation fund members.

3.3 Address longevity risk

Older Australians also face a growing burden of longevity risk as a result of the increasing focus of retirement incomes policy on financial self-reliance. While the Wallis inquiry did foreshadow this issue, life expectancy has risen sharply since that time, adding to longevity risk for both current and future retirees.

It is therefore a matter of concern that the financial product market still has little in the way of cost-effective annuity and insurance products to assist self-funded retirees manage longevity risk.

It is also of concern that equity in the family home cannot be converted to an income stream without the risk of loss of Age Pension eligibility. Given the value of the family home is already excluded from the assets test governing eligibility for the age pension, there should be no net cost to the federal budget if equity released from the exempt asset were invested in eligible retirement income generating products without affecting eligibility for the Age Pension.

3.4 Improve quality and independence of financial advice

The growing emphasis of Australian retirement incomes policy on self-provision through both mandatory superannuation and voluntary savings means that individuals now have greater responsibility for managing their finances to see them through retirement.

Despite recent efforts to improve financial literacy, many Australians have a poor grasp of even basic financial concepts. Even those who are relatively knowledgeable find it difficult to navigate the complexity of today’s market for financial products and services.

This places a growing number of households – particularly those already retired or approaching retirement – in the situation of having to depend on professional financial planners and advisers to help manage their affairs.

While recent reforms have targeted the integrity of the financial advice sector, problems of quality and conflict of interest persist.

3.5 Manage impacts of technological change

For older Australians, the rapid pace of technological innovation in the financial system has been a mixed blessing – beneficial for those who have access to the necessary facilities and command the necessary skills and resources to utilize new devices and on-line services, but risking exclusion for those without.

Australians in older age cohorts are the least likely to have access to or use the internet. National Seniors’ research also shows that older people are particularly concerned about personal safety, privacy and security. As a result, many value the personal face-to-face interaction of over-the-counter banking and may consider on-line banking less safe.

Although internet use among older Australians is growing, and will continue to do so as younger cohorts age, there remains an ongoing risk that successive older generations will be excluded from financial services employing the most recent technologies

The balance of this submission addresses the key recommendations of relevance to senior Australians on a chapter by chapter basis

4 Resilience

Older Australians have been among those most adversely affected by the GFC and the series of domestic financial failures that have occurred over the past decade or more.

The FSI final report proposes a number of measures to strengthen the resilience of Australia’s financial system to future shocks.

In line with our view that there needs to be some rebalancing of system objectives towards stability and safety for end users, National Seniors is broadly supportive of these measures, including proposals to

- set capital standards such that Australian authorised deposit-taking institution capital ratios are unquestionably strong (**Recommendation 1**)
- raise the average internal ratings-based (IRB) mortgage risk weight to narrow the difference between average mortgage risk weights for authorised deposit-taking institutions using IRB risk-weight models and those using standardised risk weights (**Recommendation 2**), and
- implement a framework for minimum loss absorbing and recapitalisation capacity in line with emerging international practice, sufficient to facilitate the orderly resolution of Australian authorised deposit-taking institutions and minimise taxpayer support (**Recommendation 3**).

Taken together, these measures should improve system resilience to shocks while facilitating competition between larger and smaller banks and ensuring that that shareholders - rather than taxpayers - bear the risk of capital losses by authorised deposit-taking institutions (ADIs).

4.1 Financial Claims Scheme

The Financial Claims Scheme represents an essential protection for depositors against systemic risk and must be retained.

However, National Seniors would strongly oppose the introduction of an ex ante levy to fund the Scheme. As the FSI report correctly points out, an ex ante fee would impose immediate costs on ADIs that would likely be passed on to depositors – effectively imposing a new tax on bank deposits. Yet, given the low probability that the Scheme will ever be invoked, funds raised through an ex ante fee would in all likelihood prove unnecessary.

Many older Australians hold savings in bank deposits – whether as insurance against rainy day events, or because they believe this is the only way to guarantee the safety of their savings. Accordingly, National Seniors strongly **supports** the FSI recommendation (**Recommendation 6**) to retain the current ex post funding arrangement.

If Government is concerned at the potential cost of the scheme, National Seniors notes that this could be lowered significantly by reducing the threshold on guaranteed deposits from the current $250,000 to a level more commensurate with protecting the median level of household deposits.

4.2 Borrowing by superannuation funds

The FSI final report recommends **(Recommendation 8**) removing the exception to the general prohibition on direct borrowing for limited recourse borrowing arrangements by superannuation funds in order to:

- prevent the unnecessary build-up of risk in the superannuation system and the financial system more broadly; and
- fulfil the objective for superannuation to be a savings vehicle for retirement income, rather than a broader wealth management vehicle.

While National Seniors supports these objectives, and concedes that a high degree of leverage within super funds could introduce significant risks both for individuals and the system as a whole, we note that there does not currently appear to be a widespread problem with over-leveraged self-managed superannuation funds (SMSFs).

In order not to unduly limit investment flexibility for super funds, rather than an outright prohibition on borrowing, National Seniors suggests further consideration be given to restricting the degree of leverage that can be attained through borrowing for any given asset – for example, through the imposition of a cap on limited recourse borrowing arrangements for investment in assets other than cash or bonds. For example, Rice Warner's submission to the FSI Panel (Rice Warner 2014) proposed that the gross asset value of any such asset (i.e. not net of the outstanding value of any loan secured against the property) should not exceed 25 per cent of the total asset value of the fund.

National Seniors suggests that options such as this be considered as part of a broader review of retirement incomes policy.

5 Superannuation and retirement incomes

A critical issue for senior Australians is their growing exposure to investment, inflation and longevity risk as compulsory superannuation arrangements increasingly substitute for, or supplement, government pensions.

The exposure of superannuation fund members to investment risk was thrown into high relief at the time of the GFC, when large capital losses were experienced by many self-funded retirees. Around half of all member assets at the time were in so called 'balanced' default options; yet as much as 60 to 80 per cent of such funds could be invested in growth assets such as shares and property with high exposure to market risk.

Those already retired or approaching retirement are particularly vulnerable to such risks because their investment horizon is shorter and they have limited, if any, ability to offset poor returns with higher contributions, and may never be in a position to make good capital losses once having entered the pension draw down phase.

Longevity risk – or the risk that retirees will outlive their savings – together with inflation risk, poses an even greater threat to both current and future retirees dependent on superannuation savings to support them through older age.

The significance of longevity and inflation risks is mounting as average life expectancy continues to rise. While average life tables show average life expectancies for those aged 65 based on reductions in mortality to date, allowance must also be made for future improvements in mortality. For example, a recent Productivity Commission report estimated that a girl born in 2012 will live much longer than shown in current life tables:

> '*Using current period life expectancies, it might appear that a person born in 2012 could expect to live for 19 more years after they reach 65 years old. In fact, it is projected that they will live for around 29 years after that age*' (Productivity Commission 2013).

A further risk to the adequacy of superannuants' savings is inefficiency in superannuation fund management, as reflected in Australia's relatively high level of superannuation fees. The Grattan Institute estimates that superannuation fees reduce the amount of superannuation at retirement by more than 20 per cent:

> '*High fees mean that on conservative assumptions a 50-year old Australian will have his or her super balance reduced by over $80,000 in fees (in today's dollars) at retirement. A 30-year old will lose more than $250,000, or over a quarter of the total balance. Under a fairer fee structure, at least half that money could be saved*' (Minifie J, Cameron T et al. 2014)(1)

To improve the efficiency and effectiveness of the superannuation system, the FSI report proposes a package of measures that include:

- enshrining the objectives of superannuation in legislation
- improving efficiency in the accumulation phase to reduce fees, and
- increasing the focus on income adequacy in the retirement phase.

We respond to each of these proposals below.

5.1 Objectives of Australia's superannuation system

Attributing some of the present shortcomings of Australia's superannuation system to the lack of any universally agreed and clearly articulated objectives, the FSI report recommends that Government *'seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term*' (**Recommendation 9).**

National Seniors wholeheartedly **endorses** this recommendation and agrees with the FSI final report that the primary objective of superannuation should be:

> *To provide income in retirement to substitute or supplement the Age Pension.*

National Seniors also **supports** the proposal to require future policy decisions to be transparently assessed for consistency with this objective to ensure greater policy coherence and stability and reduce the risk of ad hoc and inconsistent policy decisions. Our research shows over half of Australians aged 45-plus with knowledge of superannuation believe the rules change too often. Almost 40 per cent of those still working say changes to the system are affecting their retirement plans (National Seniors Productive Ageing Centre 2012).

National Seniors calls for the objectives of the superannuation system to be incorporated into a **comprehensive retirement income strategy** that considers taxation, social security and financial system interactions**.** The lack of a coherent, overarching retirement incomes strategy, constant change and continual speculation around superannuation rules and Age Pension eligibility create great uncertainty for Australians in and nearing retirement.

Setting clear goals will provide stability to the superannuation system, with any future changes required to be assessed against the superannuation system's publicly accountable goal.

In this regard, we note that allowing younger superannuation savers to draw on their superannuation fund balances to purchase their first home would reduce savings balances available for compound growth in the accumulation phase. This would appear to be quite inconsistent with the objective of building private savings for retirement. It is also questionable whether diverting superannuation savings towards home purchase would contribute in any meaningful way towards improved housing affordability. To the contrary, given existing constraints on housing supply, it might only contribute to further escalation in house prices.

With superannuation savings becoming a more significant source of domestic savings to fund growth, there is also some risk that future governments may seek to direct superannuation funds towards investing in particular asset classes – such as infrastructure assets - in order to promote sectoral or broader economic growth objectives. National Seniors considers it imperative that the long term interests of fund members remain the sole focus of superannuation funds, and this would be assisted by clear, legislated objectives for the system.

5.2 Efficiency in accumulation phase

A number of submissions to the FSI Panel assert that superannuation administration fees in Australia are high relative to those in other jurisdictions, implying significant scope for efficiency improvements. Against this, some representatives of the superannuation industry have expressed the view that Australia's defined contribution system makes it inevitable that investment strategies and fees will be higher than in jurisdictions that rely more on defined benefit schemes, and that there is a risk that the search for lower fees will come at a cost to capital growth through a switch to passive asset management strategies in order to reduce fund management costs.

Regardless of the merits of this argument, there is evidence of a lack of fee competition between Australian superannuation funds, in part reflecting low member engagement. While MySuper reforms should exert some downward pressure on fees – and there is already some evidence of this occurring – there are impediments to competition in the current system for allocating new default members to MySuper products.

To address this issue, the FSI report recommends that Government introduce a formal competitive process to allocate new default fund members to MySuper products, unless a review by 2020 concludes that the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system (**Recommendation 10**).

As set out in our second submission to the FSI Panel (National Seniors Australia 2014), National Seniors **supports** the proposal to auction management rights to default super funds as a way of fostering fee competition between super funds. However, we question why it is necessary to wait until 2020 to implement this reform, assuming a satisfactory auction design can be developed before then.

5.3 Increasing focus on income in the retirement phase

A key finding of the Murray Inquiry (Financial System Inquiry 2014)(90) is that superannuation assets are not being efficiently converted into retirement incomes '*due to a lack of risk pooling and an over-reliance on account-based pensions. This contributes to a lower standard of living for Australians in retirement...*'

There are two aspects to this:

- an insufficient focus by super funds on the retirement phase; and

- an absence of attractive and cost-effective annuity products that protect against longevity risk.

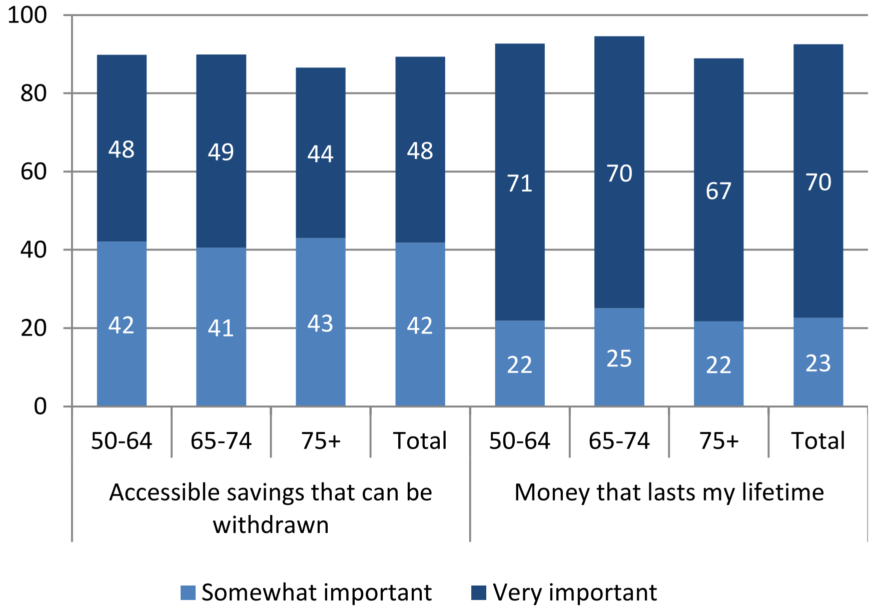
Insufficient focus on the retirement phase has contributed to a situation where retirees remain over-exposed to **investment** risk, and poorly protected against both **longevity** and **inflation** risk.

Older Australians have a low appetite for investment risk, preferring certainty and reliability over higher returns from investments. This is particularly so among those already retired or approaching retirement. When over-50s were asked about the largest loss in retirement savings they would tolerate over one year having regard to their long term goals for retirement, the vast majority of respondents to a National Seniors survey (National Seniors Productive Ageing Centre 2013) expressed a clear preference for stability over return. Almost 38 per cent said they would not tolerate any loss in retirement savings over a one year period and only 13 per cent of those who responded to this question said they would tolerate a loss more than 5 per cent in any one year.

Despite this clear preference for lower risk assets, a study by the Centre for International Finance and Regulation (Kingston G and Weng H 2014) suggests that the average baby boomer's financial plan is too risky, with advisers often relying on 'generic' plans for clients that rely too heavily on risky assets and don't take account of the fragility of the near retirement phase. According to study leader Professor Geoffrey Kingston: *'if an investor suffers a capital loss (during this phase) it is extremely unlikely that the full extent of the loss will ever be recouped'* (Financial Standard 3 February 2015).

Figure 5.1

Importance in retirement of: accessible savings/money that lasts my lifetime



Source: (National Seniors Productive Ageing Centre 2013)

Senior Australians are also attuned to longevity risk. More than three-quarters of older Australians surveyed by National Seniors (National Seniors Productive Ageing Centre 2013) ranked ensuring their savings lasted their lifetime as very important (Figure 5.1).

Despite this, only 6 per cent of Australian superannuants opt for annuity products. The vast majority (94 per cent) currently take their retirement income in the form of account-based pensions, which provide little protection against longevity risk.

This points to a failure by superannuation trustees to focus on the key task of generating secure retirement incomes that rise broadly in line with inflation, as distinct from maximising short term returns.

It is also a reflection of the limited range of annuity products available and the perception that life annuities offer poor value for investors. Retirees are also concerned that, should they die prematurely, any funds invested in an annuity will be retained by the annuity provider rather than flowing to their estate.

5.3.1 Comprehensive income product for retirement (CIPR)

To address these issues, the FSI report recommends that superannuation trustees be required to pre-select a comprehensive income product for members' retirement. At retirement, the member would either give their authority to commence the pre-selected option or elect to take their benefits in another way (**Recommendation 11**).

Retirees face difficult trade-offs between income adequacy, sustainability and the flexibility to access capital when required. Longevity risk is particularly challenging, with uncertainty surrounding average life expectancy compounded by the additional uncertainty associated with a high degree of individual variability in the age of death. As the Government Actuary observes (Australian Government Actuary 2014), this makes it exceedingly difficult for those who have entered the pension draw down phase to strike the optimal balance between the risks of:

- using up their capital too quickly and therefore running out of money; and
- drawing their savings down too slowly, thereby unnecessarily compromising living standards during retirement

While lifetime annuities are designed to address this problem, the fact that take-up is low suggests most retirees consider them relatively poor value for money. Instead, most rely on account based pensions and manage longevity risk by adopting a conservative stance, drawing their account down at the minimum permissible rate. While this minimises their risk of outliving their retirement savings, the inevitable trade-off is that it also reduces living standards relative to what would otherwise be possible, with significant balances remaining in superannuation savings accounts at death that could have contributed to a more comfortable retirement.

Analysis conducted by the Government Actuary for the FSI Panel provides a compelling case for alternative retirement products that could better protect retirees against longevity risk whilst still yielding a satisfactory income stream. The Actuary's analysis shows it is possible to achieve a higher level of income in retirement than either life annuities or account based pensions, while effectively insuring against longevity risk, by investing in deferred group annuitisation schemes (GSAs). The analysis shows that up to a 40 per cent improvement in income in retirement could be achieved through GSAs compared to an account based pension drawn down at the minimum permissible rate.

While investing in a GSA would offer the highest income, the analysis showed that a combination of an account based pension and a <u>deferred</u> group self-annuitisation product could provide a more optimal mix for retirees wishing to retain some flexibility to access their capital whilst still insuring against longevity risk.

The FSI's proposal is that its pre-selected option should be a comprehensive income product for retirement (CIPR) whose minimum features would include a regular and stable income stream, longevity risk management and flexibility. Drawing on the Actuary's analysis, the report notes that a combination of products would likely be required - such as an account-based pension paired with a pooled product that provides longevity risk protection.

National Seniors recognises that retirement planning involves complex trade-offs. These will vary depending on the individual's circumstances, so retaining flexibility and choice are essential. National Seniors would not therefore support any degree of compulsion on how members draw down their superannuation savings. However, in order to strengthen the focus on retirement incomes and in recognition that the issue of member disengagement may mean that default arrangements are warranted, National Seniors **supports** the recommendation that superannuation funds pre-select a retirement income product for their members. So long as members retain the option to take their retirement incomes in another way, this approach would appear to strike a reasonable balance between system efficiency in providing retirement incomes and the preservation of individual freedom and choice.

5.3.2 Removing impediments to alternative product development

Low take up of longevity products also reflects a range of regulatory and other impediments to product innovation and the development of alternative longevity products, including:

- the SIS regulations;
- APRA prudential standards for longevity products;
- the approval process for longevity products; and,
- the taxation of deferred annuities and other longevity products.

National Seniors **endorses** the FSI recommendation (part 2 of **Recommendation 11**) that tax, regulatory and other impediments to product development be removed.

The inability of retirees to convert home equity into an income earning asset without loss of pension asset test exemption on that asset represents one such impediment to the take up of annuity products. National Seniors therefore endorses the conclusion of the Murray Inquiry (Financial System Inquiry 2014)(118) that:

> '*In principle, the means test should not discourage products that manage longevity risk, should aim to provide neutral treatment of products with longevity risk protection, and should not make it difficult for individuals to smooth their income and consumption over retirement*'.

5.4 Choice of fund

National Seniors **supports Recommendation 12** of the FSI report to provide all employees with the ability to choose the fund into which their Superannuation Guarantee contributions are paid. Employers should be allowed to select a default fund from all APRA authorized MySuper funds. Amongst other benefits, this should ensure greater competition and place downward pressure on fees.

5.5 Governance

Given the critical role which superannuation funds now play - not only in husbanding individual's savings, but in the efficiency and stability of the financial system as a whole - their governance must be of the highest standard.

The requirement to have a majority of independent directors is consistent with international best practice on corporate governance. It applies to Australian listed companies as it does to banks and life insurer boards which are subject to APRA's regulation, and there seems no reason why it should not apply also to superannuation funds.

Both the Cooper Super Review and the Murray Inquiry (**Recommendation 13**) have recommended mandating independent directors for Australian superannuation funds.

National Seniors **supports** the requirement to include independent directors on superannuation boards, with appropriate transitional arrangements. In view of the special nature of the trustee relationship between funds and their members, National Seniors also **supports** the proposed strengthening of director conflict of interest requirements and the extension of civil and criminal penalties for directors who fail to execute their responsibility to act in the best interest of members.

6 Innovation

Ongoing technological innovation has transformed the nature of financial institutions and products and altered the very structure and composition of the financial industry. As the FSI report acknowledges, the rapid pace of technological innovation may also introduce new systemic risks and adverse consumer outcomes, particularly if regulation fails to keep pace with change.

For older Australians, the rapid pace of technological innovation in the financial system has been a mixed blessing – beneficial for those who have access to the necessary facilities and command the necessary skills and resources to utilize new devices and on-line services, but risking exclusion for those without.

Australians in older age cohorts are the least likely to have access to or use the internet (National Seniors Productive Ageing Centre 2011). In addition, many value the personal face-to-face interaction of over-the-counter banking, and may consider on-line banking less safe. Although internet use among older Australians is growing, and will continue to do so as younger cohorts age, there remains an ongoing risk that successive older generations will be excluded from financial services employing the most recent technologies.

Accordingly, while agreeing that Government and regulators should look to removing unnecessary impediments to innovation and to new data-driven business models, National Seniors considers positive measures may be required to ensure that financial institutions and service providers do not inadvertently marginalise or disempower those with limited access to or ability to benefit from these innovations.

In relation to data access and use, National Seniors supports the FSI proposal (**Recommendation 19**) that Government commission the Productivity Commission to conduct an inquiry into the costs and benefits of increasing access to and improving the use of data, subject to privacy considerations. While increasing access to data could enhance consumer outcomes, including improving individuals' access to public and private sector data about themselves, it could also involve privacy risks.

National Seniors' research shows that older people are particularly concerned about personal safety, privacy and security (National Seniors Productive Ageing Centre 2011).

7 Consumer Outcomes

National Seniors welcomes the FSI report's strong focus on consumer outcomes and its recognition that the current regulatory framework must be improved to ensure adequate consumer protection.

National Seniors submits that a consumer protection framework that relies predominantly on financial disclosure, advice and education has proved manifestly inadequate to protect consumers from toxic products and poor quality financial advice. While regulation should be proportionate to the risks involved and compliance costs kept as low as practicable, the costs of consumer protection regulation must be judged against the risks. As the institutional failures of the past decade or more have clearly demonstrated, the risks to individuals from conflicted or poor quality advice can be very high indeed. Older Australians have been among those most adversely affected by these events.

Individual investors need genuinely independent information and advice on how to navigate an increasingly complex system and to understand the choices facing them. It is simply unrealistic to expect the ordinary investor to understand the risk properties of sophisticated financial products or to know whom they can trust for advice. Therefore, National Seniors was surprised by the de-funding of the National Information Centre for Retirement Investments (NICRI) in February 2015. For 25 years, NICRI provided a vital, free and truly independent person-to-person service for older Australians struggling to understand retirement income - from investments to superannuation, investments and aged care. Its demise leaves a dangerous gap in independent information flows as financial risk increasingly shifts to consumers.

7.1 Regulation of financial products

National Seniors **supports** the FSI recommendation for Government to introduce a principles-based product design and distribution obligation (**Recommendation 21**). Requiring product issuers and distributors to consider the type of consumer whose financial needs would be addressed by a given product and the channel best suited to its distribution should strengthen the accountability of product manufactures and help overcome some of the shortcomings with disclosure requirements, reducing the risk of consumers purchasing inappropriate financial products.

National Seniors also supports the proposal (**Recommendation 22**) to empower ASIC to intervene to require or impose amendments to marketing and disclosure materials, warnings to consumers, labelling or terminology changes and distribution restrictions.

The FSI's proposed further step of introducing product banning powers should be given further thought, and preferably **deferred** pending evidence on the effectiveness of the other measures. While some financial products have proven so hazardous it could be argued they should never have been released, empowering ASIC to intervene to prevent the distribution of particular products could add significantly to regulatory costs. Although the Murray Inquiry intended that this power be used only as a last resort, there is a possibility that more risk-averse providers could seek ASIC's explicit approval for every new product, tying up valuable regulatory resources that are sorely needed for wider compliance and enforcement activities.

Removal of regulatory impediments to innovative communication of product disclosure information (**Recommendation 23**), such as the use of online communication tools, new media, self-assessment tools and videos is supported in principle, subject to ensuring that this does not preclude the use of existing channels of communication that may be more accessible to older investors.

7.2 Regulation of financial advice services

Reliance of the regulatory framework on disclosure, advice and consumer education, while leaving the competence and ethical standards of the financial services sector to industry self-regulation, has manifestly failed to protect consumers from poor quality and conflicted financial advice. Despite various legislative and regulatory reforms since the failures of HIH, Storm Financial, Trio/Astarra, Westpoint and Banksia, evidence of new financial advice scandals have continued to emerge, even among more reputable and trusted institutions such as CBA, Macquarie and NAB.

Older Australians have been among those most adversely affected by poor quality advice. Indeed, the Senate Economic References Committee inquiry into ASIC's performance found (Commonwealth of Australia 2014)(xix) that:

> '…*between 2002 and 2010, some financial advisers, brokers and lenders systematically targeted more vulnerable members of the community, especially older Australians with assets but without high levels of financial literacy'.*

Over-55s now account for two thirds of all financial planning clients, and an estimated four out of every five dollars under advice. This proportion is only likely to grow as the population ages and reliance on superannuation and private savings in retirement becomes more widespread.

Notwithstanding the Future of Financial Advice (FOFA) reforms, a sales culture persists in many financial advice firms that present advisers with incentives to put product sales ahead of the interests of their clients. For example, a CFA Institute 2015 Global Market Sentiment Survey (CFA Institute 2015), which collated responses from over 5,200 global investment professionals, showed that 67 per cent of all Australian respondents said that a *lack of an ethical culture within financial firms was the single biggest reason for the current lack of trust*. This shows that legislative action alone will not be sufficient, and must be complemented by action at the firm level to promote an ethical financial services industry.

The FSI Panel agreed that the regulatory framework needs '*to more effectively align the governance and corporate culture of financial firms, employees and other representatives*' (Financial System Inquiry 2014)(193).

National Seniors **supports** the FSI proposals (**Recommendation 24**) to better align the interests of financial firms with those of consumers, viz:

- raising industry standards of conduct and levels of professionalism;
- providing ASIC with an enhanced power to ban individuals, including officers and those involved in managing financial firms, from managing a financial firm;
- requiring that an upfront commission for life insurance advice is not greater than ongoing commissions (and, if level commission structures do not address the issues in life insurance, Government should revisit banning commissions); and,
- ASIC reviewing the effect of current stockbroking remuneration structures on the quality of consumer outcomes.

Our response to each of these recommendations follows.

7.3 Competence of financial advisers

A number of changes to the financial advice sector are required if consumers are to be confident that an individual claiming to be a financial adviser/planner has an adequate level of qualifications, expertise and professional standards. A number of National Seniors members have reported negative experiences with financial service providers, ranging from incorrect technical advice to unsubstantiated predictions of return and lack of disclosure of the underlying risk of investments.

The FSI report (**Recommendation 25**) proposes a suite of measures to raise the competence of financial advice providers, and also recommends the establishment of an enhanced register of financial advisers.

National Seniors **supports** these proposals, and also believes the high degree of vertical integration within the wealth management sector, including within financial advisory firms should be addressed as it is contributing to the high levels of mistrust and increases the potential to significantly lessen competition and choice.

7.3.1 Competency standards

The FSI report recommends that minimum requirements for those advising on Tier 1[1] products should include:

- a relevant tertiary degree;
- competence in specialised areas, such as superannuation, where relevant; and,
- ongoing professional development — including technical skills, relationship skills, compliance and ethical requirements.

These requirements are broadly consistent with those of the Parliamentary Joint Committee on Corporations and Financial Services (PJC) (Commonwealth of Australia 2014). The PJC was also in favour of a national examination. Although the FSI does not recommend a national exam for advisers, it notes this could be considered if issues in adviser competency persist.

National Seniors notes that the Government favours a co-regulatory model of adviser professional standards where professional associations, industry and academia work together to raise professional standards. The Government has committed to further consultation with industry on professional standards until June 2015.

While some adviser firms have recently announced they are increasing their own qualification requirements, National Seniors considers it is too late for the sector to self-regulate and that national professional, ethical and educational standards must be set by Government.

The current levels of professional, education and ethical standards of financial advisers are manifestly inadequate and this has contributed to negative consumer outcomes. As outlined in our submission to the PJC (National Seniors Australia 2014), in extreme cases, unregulated, underqualified and potentially unethical financial advisers have been responsible for recommending

[1] Tier 1 products - which include superannuation, managed investment schemes, life insurance, securities and derivatives – are generally subject to higher training standards than basic banking and general insurance products.

clients invest in highly inappropriate and fundamentally flawed investment schemes, such as Storm Financial and Westpoint.

While the over-50s have welcomed the PJC recommendations that financial advisers meet tougher professional, ethical and educational standards to bring them in line with legal and accounting professionals, the proposed commencement date of 2019 for the requirements for financial advisers to hold a higher education qualification and act within professional standards is unacceptable. Older Australians cannot defer their retirement investment decisions until 2019 – and they expect only the highest standard of their financial advisers. Given some 80 per cent of financial advisers are controlled, owned by, or affiliated with, the large financial institutions (and their extensive resources), compliance with the new requirements should not be an onerous task and does not require such a long lead time.

National Seniors recommends two levels of national certification requirements, as follows:

- New financial advisers and planners must complete the following four requirements before they can become a certified financial adviser/planner and provide financial advice:
  - completion of an undergraduate degree in economics, law, finance or a related field;
  - completion of the national certification assessment;
  - completion of at least 20 weeks post qualification supervised work experience;
  - commitment to a professional code of conduct and continuing professional development requirements; and,
  - before an individual can practice independently as a financial adviser/planner and operate their own firm, they must complete 3 years of work experience under an unrestricted financial adviser planner.
- Existing financial advisers and planners must successfully complete the following three requirements within 24 months or be restricted from providing financial advice:
  - completion of the national certification assessment;
  - commitment to a professional code of conduct and continuing professional development requirements; and,
  - completion of a diploma level qualification in financial services (financial planning) or similar.

In addition, National Seniors recommends that the Government:

- legislate restrictions on the use of the titles certified financial adviser/planner to those who have met the above certification requirements; and,
- legislate restrictions on the titles financial adviser/planner to existing advisers and planners yet to complete their certification requirements but who have committed to do so within 24 months.

ASIC should register the professional bodies who adopt the national certification requirements as a component of their criteria to become a member of their organisation. ASIC-approved professional financial advisory and planning bodes should administer the certification requirements, with ASIC undertaking an oversight role.

7.3.2 Enhanced register

The FSI recommended an enhanced register of financial advisers that includes licence status, work history, education, qualifications and credentials, areas of advice, employer, business structure and years of experience. The Government subsequently announced its intention to implement these recommendations.

In addition to a provider's name, date and place of birth, name and eventual owner of the licensee they work for, the year they started to provide personal advice, the financial products they are authorised to advise on and a five-year advising history, the register will also require financial advisers to provide detailed information about their professional qualifications and membership of industry associations.

While Government is to be commended on its prompt development of the enhanced register, the product released on 31 March represents only a first, very small step. National Seniors considers that much more needs to be done to ensure that consumers have the information they need to make an informed choice of financial adviser.

First, although the register appears on ASIC's *Money Smart* website, the information provided by licensed businesses is not independently verified by ASIC.

Second, because the register will only contain five years of history, salient information on the records of advisers banned following earlier financial failures (such as Storm Financial), but who have subsequently been reissued licenses, will not be included.

Third, there will be no record of misconduct in relation to advisers who have been quietly 'let go' as a result of professional misconduct or breaches of licence conditions (as recently seen at NAB).

Fourth, in order for consumers to assess whether an adviser is conflicted it is also important for them to have access to information on how advisers are paid. Consideration should therefore be given to whether it would be feasible to include on the register information on the nature of advisers' remuneration arrangements.

Finally, the format of the register should be age-friendly and should enable access by phone as well as the internet. All complaints or claims made against advisers, and the outcomes of those claims, should also be recorded in the register.

7.3.3 Life Insurance

While the FOFA reforms banned commissions on investment advice, this did not extend to life insurance. Allowing conflicted remuneration arrangements to persist in the life insurance industry, represents a significant gap in the regulatory framework.

Not only are up front commissions more costly, with the longer the life of the policy the more the consumer pays, there is now clear evidence that they compromise the quality of financial advice. An ASIC review of life insurance advice in late 2014 (Australian Securities and Investments Commission (ASIC) 2014) found that 37 per cent of the personal advice reviewed failed to comply with the laws relating to appropriate advice and prioritising the needs of the consumer and that advisers paid under an upfront commission model were significantly more likely to provide inappropriate advice.

Noting that high up front commissions not only undermine the quality of advice but create incentives for advisers to encourage an inappropriate level of churn, the FSI report recommends legislation to impose a level commission structure so that an upfront commission is not greater than the ongoing commission.

While the FSI Panel has noted concerns that some consumers may not purchase life insurance at all if commissions are banned outright and replaced by upfront fees, National Seniors **supports** the FSI proposal that Government should revisit banning commissions if the proposal to level commission structures does not adequately address the issues and the industry does not respond resolutely to address conflicted remuneration in the life insurance sector.

7.4 General insurance

Recent natural disaster events have highlighted concerns about underinsurance resulting from insufficient industry guidance to consumers as to the likely replacement value for home building and contents for the purpose of insurance. Although general insurance has a specific product disclosure regime, the FSI report notes that industry lacks standard practice in describing a policy's key features and exclusions.

To address this, **Recommendation 26** of the FSI Panel is calling for improved guidance (including tools and calculators) and disclosure for general insurance, especially in relation to home insurance.

National Seniors **supports** this recommendation, and agrees with the FSI that, if significant progress is not made by industry, Government should consider introducing a regulatory requirement to provide this guidance at the point of renewal or on entering into a contract with a new insurer.

8 Regulatory system

National Seniors agrees with the Murray Inquiry that Australia's financial regulatory architecture has generally stood the test of time and is not in need of major restructure. That said, there is scope for improvement to ensure it continues to provide the appropriate balance between the safety, stability and efficiency of the financial system, including improvements to better protect consumer outcomes.

In particular, the FSI report has identified some weaknesses in how financial regulation is implemented, noting that

- Government lacks a process for holding regulators accountable for their overall performance
- some significant weaknesses exist in regulator funding arrangements and enforcement tools, particularly for ASIC, and
- competition and efficiency in designing and applying regulation may not be adequately considered.

8.1 Regulator accountability framework

National Seniors is broadly **supportive** of the FSI proposals **(Recommendation 27**) to improve regulator accountability, viz:

- a new Financial Regulator Assessment Board to advise Government annually on how financial regulators have implemented their mandates;

- clearer guidance to regulators in Statements of Expectations; and,
- increased use of performance indicators for regulator performance.

8.2 Improve budget stability for ASIC and APRA

National Seniors **supports** the FSI report proposal (**Recommendation 28**) that ASIC and APRA should be strengthened through increased budget stability using a three year funding model built on periodic funding reviews. Greater operational flexibility and periodic capability reviews should also help ensure that regulators have the necessary expertise and can respond more nimbly to increasingly rapid changes in technology and financial business models.

8.3 Strengthen ASIC powers and surveillance activity

National Seniors strongly agrees with the FSI report finding that the effectiveness of consumer protection in the financial system must be improved, with considerably more regulatory focus on industry supervision and weeding-out misconduct.

To achieve this, ASIC requires more adequate funding, better expertise and stronger powers.

These findings were also among the key messages arising out of the Senate Economics References Committee's 2014 report on ASIC's performance (Commonwealth of Australia 2014).

Like the Senate Inquiry, the FSI report recommends that ASIC be empowered with enhanced regulatory tools, stronger licensing powers to address misconduct, and substantially higher criminal and civil penalties.

It is also clear that ASIC is not adequately funded to carry out its consumer protection role effectively in relation to the financial services industry.

Accordingly National Seniors **supports** all three components of FSI **Recommendation 29**, viz:

- Introduce an industry funding model to recover the cost of ASIC's regulatory activities directly from industry participants
- strengthen the Australian Credit Licence and Australian Financial Services Licence (AFSL) regimes so ASIC can deal more effectively with poor behaviour and misconduct, and
- substantially increase maximum civil and criminal penalties for contravening ASIC legislation as a credible deterrent for large firm

8.3.1 Industry funding of financial counselling and literacy

In addition, National Seniors considers it would be appropriate for the proposed industry funding model for ASIC to incorporate a specific levy to fund financial counselling and literacy initiatives. The model for such an approach is the United Kingdom, where financial counselling and financial literacy initiatives are funded through a levy on financial services providers.

At present, funding for financial counselling is through the normal budget appropriation process and involves grants to community agencies. However, an industry funded model would combine the benefits of a direct link between the funding source and the use of the funding, and the likelihood that it would provide a more stable and reliable funding source for financial counselling.

8.4 Competition

The Murray Inquiry concluded that, although competition is generally adequate in the financial system at present: '*the high concentration and steadily increasing vertical integration in some sectors has the potential to limit the benefits of competition in the future'* (Commonwealth of Australia 2014)(255).

National Seniors concurs with this assessment, and has previously voiced particular concern at the implications of vertical integration in the wealth management sector not just for competition and choice, but also for conflict of interest in the provision of financial advice.

National Seniors therefore **supports** the Inquiry proposal (**Recommendation 30**) that Government review the state of competition in the sector every three years and improve reporting of how regulators balance competition against their core objectives. National Seniors also **endorses** the proposal to include consideration of competition in the Australian Securities and Investments Commission's mandate.

8.5 Compliance costs and policy processes

The FSI report **(Recommendation 31)** calls upon government to increase the time available for industry to implement complex regulatory change and conduct post-implementation reviews of major regulatory changes more frequently.

National Seniors **agrees** that, other than in exceptional circumstances, Government and regulators should give industry participants at least six months to begin implementing regulatory changes once they are finalised.

Government and regulators should also carry out more post-implementation reviews of major changes to analyse their cost effectiveness and help develop better processes for future interventions.

9 Appendix 1: Significant matters

9.1 Retail corporate bond market

One of the impediments to the development of more cost effective annuity products that could protect retirees against longevity risk is the relatively under-developed state of Australia's retail corporate bond market.

To encourage the development of the corporate bond market, the FSI report (**Recommendation 33**) proposes reduced disclosure requirement for large listed corporates issuing 'simple' bonds, which would make retail issuance simpler and more cost effective.

National Seniors **supports** this recommendation on the basis that the development of the retail corporate bond market could provide diversification benefits for superannuation fund members, particularly in the retirement phase. Of course, there are risks associated with investing in bonds and adequate disclosure of these risks remains important, just as with any other investment. National Seniors therefore supports the proposal to restrict reduced disclosure requirements to the top 150 companies on the ASX.

9.2 Finance companies

National Seniors supports the FSI recommendation (**Recommendation 35**) that APRA ban finance companies from offering at-call products to retail consumers and from using bank-account like terminology that could cause consumers to confuse them with authorised deposit-taking institutions.

9.3 Superannuation member engagement

National Seniors strongly endorses the FSI report finding that all superannuation fund members need to understand their projected retirement income if they are to make informed decisions about their retirement savings.

As argued in our submission in response to the FSI interim report (National Seniors Australia 2014), National Seniors strongly **supports** the inclusion of retirement income projections on annual super statements **(Recommendation 37**), in addition to information on lump sums.

The Association of Superannuation Funds of Australia (Association of Superannuation Funds of Australia (ASFA) 2014) has documented evidence that members value projections of income streams. For example, *'Cbus achieved a 97 per cent approval rate from members for statements that presented them with an estimate of their income in retirement in today's dollar value'.* Cbus also found that providing retirement income projections had a measurable impact on member engagement, with 12 per cent raising their contributions, 10 per cent changing investment options and 14 per cent contacting the Cbus advice team after income projection statements were received.

In light of these findings, ASFA has proposed that all member statements should contain a projection of the member's likely income stream in retirement based on their current balance and contribution rate, with the actuarial assumptions set by the Australian Government Actuary and the format and content specified in Corporations legislation.

National Seniors also **supports** the FSI proposal to facilitate access to consolidated superannuation information from the Australian Taxation Office to use with ASIC's and superannuation funds' retirement income projection calculators. This would enable individuals to enter their superannuation fund and asset balances and obtain a more accurate retirement income projection, including any income from the Age Pension.

9.4 Technology neutrality

Rapid changes in technology and in financial sector business models have rendered some elements of the regulatory framework inappropriate – such as the requirement that financial disclosure documents be paper based. A consequence is that regulation is no longer technologically neutral. To address this, the FSI report recommends (**Recommendation 39**) adoption of the principle of technology neutrality and review and reform of existing regulations in line with that principle.

Technology neutrality is likely to mean that electronic delivery becomes the default for most businesses. While acknowledging the importance of technology neutrality, National Seniors submission to the FSI Panel (National Seniors Australia 2014) emphasised the need for safeguards to enable those who are either unable or unwilling to use electronic delivery modes to continue to get access to the information and services that they need.

The Murray Inquiry has heeded this call, and has included in its recommendation on technology neutrality a requirement to ensure regulation allows individuals to select alternative methods to access services to maintain fair treatment for all consumer segments. National Seniors **strongly endorses** the proposal that this requirement be incorporated in any shift to technology neutral regulation.

9.5 Provision of financial advice and mortgage broking

The current regulatory framework governing advice on financial products draws important distinctions between 'personal' advice and 'general' advice, with those offering personal advice being required to explicitly take account of a person's needs, objectives or personal circumstances. However, recognising that some consumers may excessively rely on general advice such as promotional and sales material when choosing financial products, the Inquiry proposes (**Recommendation 40**) that the term 'general advice' be replaced with a more appropriate, consumer-tested term (such as 'sales').

The Inquiry also recommends that advisers and mortgage brokers be required to disclose ownership structures to make it clear to consumers what affiliations advisers may have when recommending particular products.

National Seniors **supports** both arms of this recommendation.

9.6 Unclaimed monies

At present, bank accounts and life insurance policies are deemed to be unclaimed monies and transferred to Government if they are inactive for three years. The Inquiry recommends (**Recommendation 41**) that the period of inactivity is extended to seven years before accounts and policies can be deemed to be unclaimed and that these monies should be held in a separate trust account.

National Seniors **agrees** and considers this change imperative.

The recent change to the definition of inactive bank accounts and the poorly governed financial advice sector have reduced and, in some cases, eliminated completely, the retirement savings of the over 50s. Substantial funds are being removed from bank accounts as unclaimed money. In 2013-14, ASIC received $231 million in unclaimed money. A large proportion of these funds are owned by Australians aged over 50 who left them untouched within bank accounts with the intention of accessing those funds on retirement.

The percentage of unclaimed monies returned to the account holder has significantly declined between the financial years 2009-2010 and 2012-2013, a difference of 49.5 per cent. The stress and inconvenience resulting from the discovery of account closures and the ensuing process to reclaim monies is unacceptable.

9.7 Managed investment scheme regulation

National Seniors supports the FSI proposal to support Government's review of recommendations on Managed Investment Scheme regulation identified by the Corporations and Markets Advisery Committee (CAMAC), and the proposal (**Recommendation 42**) that priority be given to matters relating to:

- consumer detriment, including illiquid schemes and freezing of funds, and

— regulatory architecture impeding cross-border transactions and mutual recognition arrangements.

10 Conclusion

In conclusion, National Seniors commends the Financial System Inquiry report for its clear emphasis on strengthening the stability and safety of the financial system for end-users, its strong focus on improving the quality and independence of financial advice and its timely recommendations on how to ensure Australia's superannuation system is efficient, well governed and better addresses the need for income security in the post-retirement years.

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