Submission in Response to the Interim Report of the Financial System Inquiry

August 2014

National Seniors Australia

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1 Introduction

National Seniors is pleased to respond to issues raised in the Financial System Inquiry Interim Report – particularly those that are of most relevance to older Australians.

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 the over-50s and contribute to public education, debate and community consultation on issues of direct relevance to them.

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 on financial products, fund managers and financial advisers and on the stability of the system as a whole to sustain them throughout their retirement years.

2 Executive Summary

National Seniors welcomes the broad directions charted in the Financial System Inquiry Interim Report, including the importance of:

- 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
- managing access needs for segments of the community when adapting regulation to new technologies.

Competition and Contestability

While increased concentration within Australia's financial system may not always result in reduced competition, National Seniors is very concerned at the high degree of vertical integration within the wealth management sector. Not only does this have the potential to significantly lessen competition and choice, it entrenches conflict of interest in the provision of financial advice.

Recommendation 1:

That action be taken to curb, and potentially reverse, the trend to vertical integration between product providers and financial advisers in the wealth management sector in order to remove a major source of conflicted remuneration in the supply of financial advisory services and improve competition in financial product markets.

Independent online aggregators and price comparator websites can strengthen competition by helping consumers compare the value of competing products. In the UK, price comparator websites comparing general insurance products have been found to strengthen price competition in insurance markets but do not always enable consumers to understand key features such as level of cover, excess levels and exclusions. As this could lead to detrimental consumer outcomes, care is needed to ensure that these non-price attributes are fully revealed.

Recommendation 2:

That further consideration is given to the creation of comparison categories that aggregators could use to compare the value of different insurance products, including categories incorporating non-price attributes.

Funding Australia's economic activity

Differential tax and social security treatments of different savings vehicles may have distortionary effects on household saving and investment decisions, affecting the broader flow of funds in the economy.

National Seniors does not regard dividend imputation as a serious source of such distortions and would strongly oppose re-introduction of double taxation of company profits. Such a retrograde step would adversely affect the ability of Australian firms to raise equity finance and deny many older Australians an important and relatively reliable source of income in retirement.

Australia's relatively underdeveloped corporate bond market could be strengthened by removing regulatory impediments to retail investors directly investing in corporate bonds, although there may need to be other safeguards put in place to protect retail investors.

Recommendation 3:

Consider allowing listed issuers (already subject to continuous disclosure requirements) to issue 'vanilla' bonds directly to retail investors without the need for a prospectus, subject to further analysis of the costs, risks and benefits.

Superannuation efficiency and policy

The efficiency of the superannuation system is a significant issue, with operating costs and fees high by international standards. Regardless of the reasons for this differential, there is clearly scope for greater fee based competition between Australian superannuation funds. Auctioning management rights to default super funds is a proven means of fostering greater fee competition between super funds in other jurisdictions and should be adopted here.

Recommendation 4:

That the Inquiry recommend that the government further investigate auctioning management rights to default super funds as a way of fostering fee competition between super funds and, subject to a satisfactory auction design, commit to implementing this approach.

While maximizing superannuation balances during the accumulation phase is important, this needs to be balanced by a greater emphasis in the pension phase on delivering secure retirement incomes that rise broadly in line with inflation. Requiring superannuation funds to include projected retirement incomes in superannuation statements would improve member understanding and send a strong signal to trustees that their performance must balance short term and longer term objectives.

Recommendation 5:

That, to achieve a better balance between maximizing short term returns and delivering a reliable income stream in retirement, superannuation funds be encouraged to tailor asset allocations more to individual circumstances and be required to include projected retirement incomes in annual member statements.

National Seniors does not consider there is a case for any limitations to be placed on the establishment of Self-Managed Superannuation Funds (SMSFs). SMSFs offer greater control and flexibility and are an important source of choice and a competitive alternative to industry and retail super funds. That said, it is important that individuals considering establishing an SMSF do so in the full knowledge of the costs and risks involved – particularly for those with small account balances.

Stability and the prudential framework

National Seniors supports the continuation of the Financial Claims Scheme while acknowledging that there is scope to reduce the associated costs and risks. Lowering the insured threshold significantly below the current $250,000 could still achieve the scheme's objectives while better targeting the scheme to those whom it was intended to protect and reducing the potential cost of the guarantee.

Recommendation 6:

That the Financial Claims Scheme is maintained, but the insured threshold be reduced to a level more commensurate with the aim of protecting the median level of household deposits.

Growth in the shadow banking sector represents an emerging source of potential systemic risk to Australia's financial system that should be addressed by extending the reach of prudential supervision to institutions or activities that pose systemic risk.

Recommendation 7:

That a mechanism be established to enable the Minister to extend the prudential regulatory framework to financial institutions or activities that pose systemic risk.

Consumer outcomes

The light-handed approach to financial market regulation based on disclosure has manifestly failed to protect consumers from unsafe products and poor quality and conflicted financial advice. While improvements to existing disclosure regulations are certainly needed, National Seniors considers that disclosure alone is insufficient to ensure informed consumer choice in markets for complex financial products. Disclosure must be supplemented by a range of other strategies, including consideration of default product design and giving ASIC additional powers to regulate the marketing of financial products that are manifestly unsafe.

Recommendation 8:

That:

a. strategies to improve disclosure should include all of the options identified in the Interim Report – including shorter, better and more targeted disclosure, more risk profile

disclosure, more use of on-line comparators and choice engines and improved financial literacy;

b. ***ASIC be given power to regulate financial products that are clearly detrimental to consumers;***
c. ***consideration be given to mandating default product design in certain situations, provided a competitive selection process is used and regularly refreshed to ensure defaults reflect continuing innovation;***
d. ***extending suitability obligations to product providers be deferred until it is demonstrated that existing suitability obligations on credit providers are operating effectively as a consumer protection measure and that there are efficient and effective means of enforcement;***
e. ***ASIC be given power to regulate higher risk financial products, including power to prescribe marketing terminology for more complex or risky products.***

From the consumer viewpoint, the quality and integrity of financial advice is the most pressing issue currently affecting the operation of Australia's financial system. Poor quality and conflicted financial advice imposes high costs on individuals, leads to a misallocation of scarce resources and undermines confidence in financial institutions.

To lift the quality and integrity of financial advice, the current very low standards for personal financial advisers must be raised.

Recommendation 9:

That minimum education standards for financial advisers be raised to require financial advisers, before being able to give personal advice on Tier 1 products, to successfully pass a national examination; to hold minimum education standards of a relevant university degree; and to meet minimum continuing professional development requirements.

Secondly, personal financial advice must be genuinely independent, and seen to be so. An enhanced public register that includes employee advisers as well as independent advisers, and incorporates information on each adviser's credentials and current status, would represent an important first step to enabling consumers to establish whether an adviser is genuinely independent.

Recommendation 10:

That, to enhance consumer protection, there be improved public access to information regarding the competence, professional standing and independence of financial advisers, including:

a. ***an enhanced register of financial advisers be established that includes employee advisers and their affiliations as well as information on each adviser's educational qualifications and current status; and***
b. ***affiliated providers of general sales advice be prohibited from calling themselves advisers.***

Thirdly, there must be strong action to lift professional standards and assure the conduct of those licensed to provide financial advice.

Recommendation 11:

That, in order to assure the professional standing and conduct of personal financial advisers:

a. ***the core consumer protections contained in the original Future of Financial Advice Reforms be reinstated, including provisions in relation to scaled advice, the best interests duty, the two year opt-in and the annual fee disclosure statement; and***
b. ***the tougher of the Accounting Professional and Ethical Standards Board (APES)230 standards (at Attachment 1) be adopted by ASIC as a licensing requirement for financial advisers.***

Finally, ASIC must be equipped with appropriate regulatory tools and enforcement powers to weed out 'bad apples'.

Recommendation 12:

That ASICs power to ban advisers be enhanced to include the power to prevent a person from managing a financial services or credit business.

Regulatory architecture

APRA should be empowered to extend its prudential oversight to managed investment schemes to better manage both systemic and consumer risks in the non-prudentially regulated investment sector. There should be no relaxation of prudential supervision of superannuation funds.

Recommendation 13:

That APRA be empowered to extend its prudential oversight to managed investment schemes to better manage both systemic and consumer risks in the non-prudentially regulated investment sector.

While National Seniors sees no compelling case for major change to the existing mandates of Australia's financial regulators, we would support a strengthening of ASICs capacity to have regard to competition considerations. Strengthening ASICs enforcement focus and providing for stronger penalties would also send a clear message to financial participants that their activities are to be put under closer scrutiny.

Recommendation 14:

That:

a. ***further consideration be given to allowing ASIC to have regard to competition considerations;***
b. ***ASICs enforcement powers be strengthened through provision for stronger penalties.***

Ageing and retirement incomes

Before considering any new policy incentives for retirees to take their super benefits as an income stream, a clearly articulated national retirement income strategy that considers financial, taxation and social security interplays must be developed as priority. In that process, existing policy and regulatory impediments to retirees taking their super benefits should be addressed, including:

- prescriptive rules restricting earnings tax exemptions on superannuation pensions - in particular minimum annual withdrawal rules;
- higher relative tax rates on interest-earning assets;
- high capital adequacy requirements for providers of annuity products; and
- the inability of retirees under current social security rules to convert home equity into an income earning asset without loss of pension asset test exemption on that asset.

National Seniors would **not** support making it compulsory to take some part of superannuation as a commutable income stream. Individual circumstances differ and some individuals could be disadvantaged by such a requirement

Recommendation 15:

That the Australian government develops a holistic, comprehensive and clearly articulated cross-portfolio retirement income strategy that considers taxation, social security and financial system overlaps and interactions following national reviews of these specific areas.

Recommendation 16:

That there be no compulsion for individuals to take part of their superannuation balances as a commutable income stream, but that further consideration be given to a default arrangement with opt-out provisions, subject to full public consultation and consideration of all risk, costs and benefits.

Recommendation 17:

That, to remove current regulatory impediments to the development of an appropriate range of retirement income products, the current rules based approach to determining eligibility for tax and social security exemptions for retirement products be replaced with a principles based approach, and that the process for approval of new products be streamlined.

Technology

National Seniors welcomes the Inquiry Panel's acknowledgment of the particular issues for senior Australians arising from technological advances in the financial system, including:

- risk of exclusion as electronic service delivery becomes the default; and
- greater sensitivity to privacy, safety and security

While many consumer benefits have accrued from technological innovation in financial products and services, there is a potential for senior Australians without access to, or skills in, the use of these technologies to be increasingly marginalized by the shift of the financial system to on-line services and mobile applications. If electronic delivery is to become the default for future regulatory settings, there must be appropriate safeguards to ensure that those who are unable or unwilling to utilize these channels are not inadvertently cut off.

Recommendation 18:

That, if regulatory settings are to be changed to enable electronic service delivery to become the default, there must be appropriate safeguards to enable those who are unwilling or unable to use electronic service delivery modes continue to get access to relevant consumer protections.

3 Key Themes and Issues

3.1 Principles and objectives

National Seniors endorses the principles and objectives set out in the Financial System Inquiry Interim Report - viz, that the financial system should efficiently allocate resources and risks, be stable and reliable, and be fair and accessible.

3.2 Key Themes and Issues

National Seniors' initial submission proposed that the Inquiry should address the following key issues of particular importance for older Australians:

i. Rebalancing financial system objectives of efficiency, safety and stability;

ii. Managing growing individual exposure to financial risk;

iii. Addressing longevity risk;

iv. Removing impediments to converting non-superannuation assets into income;

v. Lifting the quality and independence of financial advice; and

vi. Managing the impacts of technological change

National Seniors welcomes the Interim report's strong focus on these issues, in particular, its emphasis on:

- strengthening system stability and safety,
- addressing investment, inflation and longevity risk in retirement,
- improving the quality and independence of financial advice, and
- adapting regulation to technological change, while recognizing the need to manage access needs for segments of the community

This submission addresses issues in each of these areas of particular relevance for older Australians.

4 Growth and Consolidation

In this section of the Interim Report, the Inquiry has identified:

- opportunities for improvement in competition and contestability,
- distortions in funding flows, and
- issues with the efficiency and policy settings of the superannuation system.

4.1 Competition and contestability

Maintaining a healthy degree of competition and contestability within the financial system offers the best prospect of fostering innovation, providing choice and keeping downward pressure on costs to consumers. This requires a system that is open to new entrants, a competitively neutral regulatory framework and consumers who are able to exercise informed choice. It also requires competitive market structures and ensuring that incumbents cannot exercise excessive market power.

The Inquiry Interim Report observes that there is a high and growing degree of market concentration and integration within Australia's financial system, although this is not necessarily incompatible with competition.

4.1.1 Vertical integration in wealth management

The degree of vertical integration within the wealth management sector is an area of key concern. National Seniors asserts that:

- Integration of wealth management advisory services with the companies that both manufacture wealth management products and own the platforms through which they are distributed has the potential to significantly lessen competition and choice within the wealth management sector.

- By entrenching conflict of interest, vertical integration within the wealth management sector has a clear potential to compromise the quality and integrity of financial advice. Indeed, our initial submission challenged the Inquiry to consider how conflict of interest in the financial advice sector could ever be effectively eliminated while vertical integration of financial product suppliers with financial planning and advisory services is permitted.

> *"vertical integration within the wealth management sector has a clear potential to compromise the quality and integrity of financial advice"*

These problems are compounded by lack of transparency. Many consumers do not realise when financial advisers are associated with product providers. According to a recent Roy Morgan survey (Roy Morgan Research 2014), the proportion of consumers unaware that their financial adviser works for a dealer group aligned with one of the big institutions has increased over the past year. Confusion most often arises when the subsidiary planning group is branded differently to the business that owns the planning group.

For all these reasons, action is needed to curb and even reverse the trend to vertical integration of financial advisory services with financial product providers. Options could include:

- allowing the ACCC, following a market assessment, to set limits on how much of the market institutional players can own,
- giving ASIC an explicit mandate to consider competition impacts when considering corporate applications for a license to supply financial advisory services,
- restricting registration and licensing of financial advisers to individuals, or
- imposing an outright prohibition on vertical integration – which would require divestment of financial advisory services by major product providers.

Recommendation 1:

That action is taken to curb, and potentially reverse, the trend to vertical integration between product providers and financial advisers in the wealth management sector in order to remove a major source of conflicted remuneration in the supply of financial advisory services and improve competition in financial product markets.

4.1.2 On-line aggregators

Online aggregators and price comparator websites can assist in promoting effective competition by helping consumers compare the value of competing products.

The Inquiry Interim Report notes that there have been problems for aggregators gaining access to product information on home and contents and car insurance in Australia with the result that aggregator benefits may not be available to consumers in these markets.

There is evidence that the development of online aggregators in the UK has driven stronger price competition in insurance markets (Accenture 2010). Insurers must offer highly competitive prices as users of online aggregators appear to be particularly price sensitive.

On the other hand, aggregators may make it more difficult for consumers to differentiate between products on attributes other than price. As the aggregator business model relies solely on signing up new contracts, with no consideration of how well competing insurers fulfil their contracts, there may be some potential for simple price comparators to have detrimental effects on consumer outcomes.

In a recent study of on-line price comparator websites (PCWs) intermediating sales of private motor, home and travel insurance products, the UK Financial Conduct Authority (FCA) found that, while PCWs provide choice in the number of providers and products available, they did not always take reasonable steps to ensure consumers had the appropriate information to allow them to make informed choices: ' This increases the risk that consumers may not always achieve fair outcomes, as they may buy products without understanding key features such as level of cover, excess levels, main exclusions and limitations' (Financial Conduct Authority 2014)(4).

The review also found that PCWs did not make clear their role in the distribution of the product or the nature of the service they provided, and their business models were not necessarily aligned with the best interest of their customers.

Given these considerations, National Seniors is attracted to the second of the two policy options for improving aggregator access to insurance markets canvassed on page 2-41 of the Inquiry Interim Report – viz, the creation of comparison categories that aggregators could use to compare the value of different products, including non-price attributes.

Recommendation 2:

That further consideration is given to the creation of comparison categories that aggregators could use to compare the value of different insurance products, including categories incorporating non-price attributes.

4.2 Funding Australia's economic activity

4.2.1 Tax distortions and household savings

The Inquiry Interim Report notes that differential tax and social security treatments of different savings vehicles may have distortionary effects on household saving and investment decisions, and that this can affect the broader flow of funds in the economy.

Several of the taxation arrangements to which the Interim Report refers underpin the investment strategies of many older Australians who have made investment choices on the assumption that those arrangements will remain in place.

We are particularly concerned at the observation in the Interim Report that the case for dividend imputation may be weaker now than when the policy was first introduced. National Seniors does not regard dividend imputation as a serious source of investment distortions and would strongly oppose re-introduction of double taxation of company profits. Such a retrograde step would reduce the attractiveness of Australian securities, adversely affecting the ability of Australian firms to raise equity finance and denying many older Australians an important and relatively reliable source of income in retirement.

More generally, National Seniors would not support a piecemeal approach to tax reform and agrees with the Inquiry Panel that the forthcoming Tax White Paper provides the best opportunity to consider the tax treatment of household savings within the context of a more comprehensive review of Australia's tax and social security arrangements.

4.2.2 Superannuation as a source of funds and driver of financial products

The Inquiry Interim Report notes the growing significance of superannuation both as source of finance to fund economic activity and as source of demand for new financial products. In the latter context, the Panel is seeking views on whether, in the absence of regulation or other incentives, demand for fixed income products will increase as a greater share of the population enters retirement.

National Seniors' initial submission highlighted the low take up of fixed income products by retirees and called on the Inquiry Panel to identify regulatory and other impediments to the development of a wider range of products to help insure retirees against longevity risk.

While there is some evidence of a recent increase in demand for fixed income products with growth in the retirement population[1] this is off a very low base. Demand for these products in Australia remains low by international standards.

This suggests there may be a need for additional action to improve the attractiveness and availability of fixed income products for retirees. However, as we argue later, the attractiveness and availability of fixed income products needs to be driven by fostering increased competition amongst providers and improved tax outcomes, not by any form of compulsion.

4.2.3 Corporate bond market

The Inquiry Interim Report notes that corporate bonds are generally not available to retail investors because corporate bonds in Australia are typically issued into the wholesale market and traded over the counter.

As we noted in our initial submission, direct investment in bonds – both government and corporate – has the potential to improve individual investors' ability to smooth returns over time as a way of managing risk. That said, the corporate bond market presents its own risks, even for the sophisticated investor, and access to sufficient information to support informed investment choices remains problematic.

While National Seniors would in-principle support removing current regulatory impediments to retail investors directly investing in corporate bonds, there may need to be other safeguards put in place to protect retail investors.

Recommendation 3:

Consider allowing listed issuers (already subject to continuous disclosure requirements) to issue 'vanilla' bonds directly to retail investors without the need for a prospectus, subject to further analysis of the costs, risks and benefits.

4.3 Superannuation efficiency and policy

4.3.1 Superannuation fees

National Seniors strongly agrees with the observation in the Inquiry Interim Report that the efficiency of the superannuation system is a significant issue, with operating costs and fees high by international standards and little evidence of strong fee based competition. According to the Grattan Institute, high fees reduce the amount of superannuation at retirement by more than 20 per cent.

National Seniors' submission to the Competition Policy Review (National Seniors Australia 2014) noted that competition in the superannuation sector relies on consumers exercising active choice. Yet despite the introduction of choice in 2005, most new fund members default into the fund chosen by their employer.

The compulsory nature of superannuation means that employee savings continue to flow into superannuation funds regardless of whether employees exercise choice, and the lack of engagement

[1] Dominant annuities provider, Challenger, for example, has recorded annuity sales growth of around 30 per cent per year over recent years, while lifetime annuity sales were up 139 per cent in 2013-14.

by members means that superannuation funds are under little pressure to offer competitive fees. Vertical integration in superannuation and wealth management may also be inhibiting competition because affiliated advisers – who now dominate the market – are less likely to recommend the products of their competitors.

The Stronger Super Reforms promised to help tackle this problem through the introduction of a simple, low-cost 'default' option to be used for the 80 per cent of employees who are deemed to be 'disengaged' with their superannuation fund. While MySuper should exert downward pressure on fees through the introduction of a single default investment strategy, standardised fees and the absence of commissions to advisers, the Grattan Institute (Minifie J, Cameron T et al. 2014) believes it is unlikely that MySuper alone will yield ongoing reductions in fees of the order of magnitude envisaged in the Stronger Super reforms.

Grattan's proposal to auction management rights to default funds appears - on the basis of the success of the approach in Chile and elsewhere - to have considerable merit, and should be given serious consideration as a means of fostering greater fee competition between super funds.

Recommendation 4:

That the Inquiry recommend that the government further investigate auctioning management rights to default super funds as a way of fostering fee competition between super funds and, subject to a satisfactory auction design, commit to implementing this approach.

4.3.2 Short termism

The Inquiry Interim Report has suggested that the current focus of large superannuation funds is on maximizing lump sum balances at retirement, as evidenced in the absence of retirement income projections in annual statements to members. The Review Panel is seeking views on whether funds are excessively focusing on short term returns; how this might be addressed; and to what extent more tailoring of asset allocations to members and of projecting retirement incomes on super statements would produce net benefits to members.

As outlined in our initial submission, National Seniors considers there is an excessive focus of superannuation funds on short term returns and, more generally, on the accumulation phase of retiree savings. While maximizing balances at retirement is important, as the individual approaches retirement there needs to be more focus in the pension phase on delivering secure retirement incomes that rise broadly in line with inflation.

More tailoring of asset allocations to individual circumstances is also desirable and would better address volatility and sequence risk.

Requiring superannuation funds to include projected retirement incomes in superannuation statements would improve member understanding of their circumstances and would send a strong signal to trustees that their performance must balance short term and longer term objectives. Elsewhere, National Seniors has also supported inclusion in member statements of a 'rational' age pension calculation, where relevant, in addition to projected superannuation payments (National Seniors Australia 2013).

Recommendation 5:

That, to achieve a better balance between maximizing short term returns and delivering a reliable income stream in retirement, superannuation funds be encouraged to tailor asset allocations more to individual circumstances and be required to include projected retirement incomes in annual member statements.

4.3.3 Borrowing by superannuation funds

The Inquiry Interim Report has expressed a concern that growth in direct leverage by the superannuation system (particularly SMSFs) could create system vulnerability, and is seeking feedback on whether funds should be allowed to borrow, or whether the general prohibition on direct leverage of superannuation funds should be restored (on a prospective basis).

National Seniors agrees in principle that a high degree of leverage within super funds could introduce significant risks, both for individuals and the system as a whole. That said, it is not clear that there is currently a significant problem with over-leveraged funds as it appears that borrowing has thus far been limited to a small percentage of SMSFs. Anecdotal evidence that some property developers have been exhorting individuals to establish an SMSF for the sole purpose of borrowing to purchase property is a matter of concern, but this goes more generally to the issue of whether an SMSF is the appropriate savings vehicle for those individuals, rather than whether it should be used for leveraging property investments.

Rather than an outright prohibition on borrowing by super funds further consideration might be given to whether additional restrictions are required to prevent over-gearing. Closer scrutiny of the behavior of property spruikers by financial market regulators may also be warranted.

4.3.4 Self -Managed Super Funds

The Inquiry Interim Report asks whether there should be any limitations on the establishment of SMSFs, particularly in view of the high operating costs of smaller SMSFs.

National Seniors does not consider there is a compelling case for any limitations to be placed on the establishment of SMSFs. SMSFs offer greater control and flexibility and are an important source of choice and a competitive alternative to industry and retail super funds.

That said it is important that individuals considering establishing an SMSF do so in the full knowledge of the costs and risks involved – including high costs for funds with small account balances and limited access to compensation of losses due to fraud or theft.

Information on the advantages and disadvantages of SMSFs could be better publicised to support more informed choice, including regular publication of information on the operating expenses of SMSFs with small account balances.

5 Post GFC regulatory response

Older Australians were among those hardest hit by the Global Financial Crisis (GFC) and by a series of domestic financial failures over the past decade. In the wake of these events, National Seniors believes that a rebalancing of the regulatory system towards greater stability and safety for end users is desirable.

5.1 Stability and the prudential framework

The safety and stability of the financial system are of high and growing importance to senior Australians. With mandatory superannuation savings, a growing proportion of older Australians are exposed to investment risk. While superannuation funds are subject to prudential regulation, other savings vehicles such as managed investment trusts are not. Protection of bank depositors from systemic risk also remains critical as many older Australians hold significant savings in bank deposits – whether to ensure ready access to cope with unforeseen contingencies, or because they believe their money will be safe.

5.1.1 The Financial Claims Scheme

The Inquiry Interim Report notes that, while the Financial Claims Scheme introduced in the wake of GFC was designed to give depositors confidence in the safety of their money during a crisis, the scheme can create moral hazard because deposits are guaranteed regardless of the riskiness of the institution. It can also distort investor decisions, encouraging more investment in deposits relative to other assets, and this may also cause competitive neutrality concerns between Authorised Deposit-taking Institutions (ADIs), which benefit from the guarantee, and non-bank financial institutions, which do not.

To address some of these concerns the Inquiry Panel is seeking feedback on whether to:

- modify the scheme,
- charge an ex ante fee, or
- lower the insured threshold.

National Seniors strongly supports the continuation of the Financial Claims Scheme.

An ex ante fee for deposit-taking institutions covered by the scheme would satisfy user pays principles, help address moral hazard and overcome some of the competitive neutrality issues between ADIs and other financial institutions. On the other hand, an ex-ante charge would result in an immediate cost impost which would ultimately be borne by depositors; whereas, under the current mechanism for funding the guarantee, costs will only be incurred if the guarantee is called upon.

Rather than an ex ante fee, National Seniors considers it would be feasible to lower the insured threshold significantly below the current $250,000 while still achieving the scheme’s objectives. In this regard it is noted that very few households hold deposits in excess of $50,000 (Davis and Jenkinson 2013). Lowering the threshold would better target the scheme to those whom it was intended to protect and reduce the disparity between ADIs and non-bank financial institutions in competing for depositor funds. It would also reduce the potential cost of the scheme were the guarantee to be invoked.

Recommendation 6:

That the Financial Claims Scheme is maintained but the insured threshold be reduced to a level more commensurate with the aim of protecting the median level of household deposits.

5.1.2 Shadow banking sector

Growth in the shadow banking sector represents an emerging source of potential systemic risk to Australia's financial system that should be addressed. National Seniors would support appropriate strategies to extend the reach of prudential supervision to institutions or activities that pose systemic risk.

Recommendation 7:

That a mechanism be established to enable the Minister to extend the prudential regulatory framework to financial institutions or activities that pose systemic risk.

5.2 Consumer outcomes and conduct regulation

The light-handed approach to financial market regulation based on disclosure has manifestly failed to protect consumers from unsafe products and poor quality and conflicted financial advice.

Older Australians have been among those most adversely affected by poor quality advice. Over-55s now account for two-thirds of all financial planning clients, and four out of every five dollars under advice, according to an *Investments Trends* report. National Seniors therefore welcomes the Inquiry Interim Report's strong emphasis on addressing the inadequacies of the current regulatory framework for both financial products and financial advice.

5.2.1 Improving and supplementing disclosure regulation

The Inquiry Panel has observed that current disclosure regulation is resulting in lengthy and complex documents that do little to improve consumer understanding of financial products while imposing significant costs on industry.

To address these shortcomings, the Interim Report sets out a range of policy options for improving and supplementing disclosure regulation.

Improvements to existing disclosure regulations are certainly needed and should include all of the options identified in the Interim Report.

However, National Seniors considers that disclosure alone is insufficient to ensure informed consumer choice in markets for complex financial products. Disclosure must be supplemented by a range of other strategies, including consideration of default product design and giving ASIC additional powers to regulate the marketing of financial products that are manifestly unsafe. While the power to ban certain products should also be considered where the harm they may do is considered sufficiently great, such interventions are only likely to occur after some harm has already been done and therefore should not be relied upon as a substitute for more proactive, preventive approaches.

Recommendation 8:

That:

a. strategies to improve disclosure should include all of the options identified in the Interim Report – including shorter, better and more targeted disclosure, more risk profile disclosure, more use of on-line comparators and choice engines and improved financial literacy;

b. ASIC be given power to regulate financial products that are clearly detrimental to consumers;
c. consideration be given to mandating default product design in certain situations, provided a competitive selection process is used and regularly refreshed to ensure defaults reflect continuing innovation;
d. extending suitability obligations to product providers be deferred until it is demonstrated that existing suitability obligations on credit providers are operating effectively as a consumer protection measure and that there are efficient and effective means of enforcement;
e. ASIC be given power to regulate higher risk financial products, including power to prescribe marketing terminology for more complex or risky products.

5.2.2 Effectiveness of financial literacy strategies

Poor general levels of financial literacy have been identified as a major impediment to effective use of disclosure regulation in financial product and service markets. Without a certain level of financial literacy, no amount of disclosure can ensure financial service consumers are in a position to make informed choices that best suit their circumstances.

Even then, the Inquiry Interim Report has observed that financial literacy strategies may be of limited effect and has sought further feedback on this matter.

National Seniors' initial submission noted that many Australians have a poor grasp of even basic financial concepts and that ongoing efforts to improve financial literacy remain important, particularly for up-coming generations. However, even those who are relatively knowledgeable may be expected to find it difficult to navigate the complexity of today's market for financial products without professional help. Accordingly, financial literacy strategies, while important, are never likely to be sufficient to protect consumers given the extent of information asymmetries in this market, and particularly not the more vulnerable members of the community most in need of such protection.

5.2.3 Regulation of financial advisers

From the point of view of the consumer, National Seniors considers the quality and integrity of financial advice to be the most pressing issue currently affecting the operation of Australia's financial system. The consequences of poor financial advice are not only devastating for individual investors - particularly older Australians with limited opportunities to recover - but also constitute a risk to the system as a whole by misdirecting scarce resources and undermining confidence in financial institutions.

As the Inquiry Interim Report acknowledges, mandated superannuation investments and the fact that increasing numbers of consumers are entering retirement with substantial superannuation investments, together with growing complexity of financial products, mean that financial advice is becoming increasingly important. Yet the Inquiry finds significant ongoing problems with the quality and independence of financial advice in Australia.

Even as the Inquiry has been underway, scandals have continued to unfold involving financial planners and advisers associated with apparently reputable financial institutions such as the Commonwealth and Macquarie banks. Emerging revelations about the misconduct of financial advisers in Commonwealth Financial Planning Limited (CFPL), part of the Commonwealth Bank of Australia Group, and ASIC's failure to provide satisfactory answers in relation to the matter, was the main catalyst for a Senate Inquiry whose report has recommended sweeping reforms to ASIC and the regulation of the sector (Parliament of Commonwealth of Australia 2014).

The Financial System Inquiry Interim Report attributes problems with the quality of financial advice to two main factors:

- low minimum competence requirements for financial advisers, and
- the influence of conflicted remuneration.

These problems are exacerbated by:

- consumers' inability to assess the competence or independence of financial advisers; and
- constrained ability of regulators to identify and deal effectively with 'bad apples'.

5.2.4 Adviser qualifications

National Seniors strongly agrees with the need to lift minimum standards for personal financial advisers. While some argue that this is likely to increase the cost of personal advice, in view of the irreparable damage that can be done by poor financial advice and in the face of the evidence of the ASIC shadow shopping survey that the quality of advice provided is, on average, ''very poor'', we consider the current very low standards to be manifestly unacceptable.

In an ideal world, mandating professional qualifications and standards of conduct would be unnecessary as the relevant professional bodies would ensure that only those with appropriate qualifications, ongoing professional development and subject to professional standards of conduct would receive the necessary accreditation. Sadly, there has been a notable failure of professional self-regulation in this industry, which leaves little option but for government to step in and impose minimum standards.

> *"failure of professional self-regulation in this industry…leaves little option but for government to step in"*

Accordingly, National Seniors would endorse the introduction of minimum educational standards and suggests that the Inquiry give serious consideration to the standards recommended by the Senate Economics References Committee (Parliament of Commonwealth of Australia 2014), as follows:

That financial advisers be required to:

- successfully pass a national examination developed and conducted by relevant industry associations before being able to give personal advice on Tier 1 products;
- hold minimum education standards of a relevant university degree, and three years' experience over a five year period; and
- meet minimum continuing professional development requirements.

Recommendation 9:

That minimum education standards for financial advisers be raised to require financial advisers, before being able to give personal advice on Tier 1 products, to successfully pass a national examination; to hold minimum education standards of a relevant university degree; and to meet minimum continuing professional development requirements.

5.2.5 Adviser independence

A further requirement for assuring the quality of financial advice is that it should be professional, personalised and genuinely independent. However, with increasing vertical integration of financial advisers with product manufacturers giving rise to growing problems of 'conflicted remuneration', the independence of financial advisers can no longer be guaranteed.

To make matters worse, many consumers are unaware that the advice they have received is not genuinely independent, and survey evidence shows this situation worsening with an increase even in the past year in the proportion of consumers who are unaware that their financial adviser works for a dealer group aligned with the big institutions (Roy Morgan Research 2014).

The Inquiry Interim Report has recognised the issue of adviser independence as a core issue for the quality and integrity of financial advice. In seeking further input on options to address problems of independence and conflicted remuneration in the industry, the Panel has asked:

- whether there is a case for an enhanced public register of financial advisers,
- whether there is a case to more clearly distinguish between independent and aligned advisers, and
- whether general advice might more appropriately be labelled 'sales'.

An essential first step to improving the capacity of consumers to identify whether advice is independent or aligned is through greater consumer access to information about financial planners. An enhanced public register that includes employee advisers as well as independent advisers, and incorporates information on each adviser's credentials and current status, would assist in this regard. National Seniors understands that an industry consultation is currently underway regarding the content of such a register.

While an enhanced register will improve transparency, this still relies on consumers being proactive and checking the status of advisers before seeking personal advice. As this cannot always be relied upon, and given the evidence of continuing consumer confusion about the independence of advisers, National Seniors considers there is also merit in prohibiting suppliers of general sales advice from calling themselves advisers.

Ultimately, however, the problem of conflicted remuneration can never be completely eradicated so long as vertical integration of financial advisory services with the manufacturers and distributors of financial products continues to be allowed.

Recommendation 10:

That, to enhance consumer protection, there be improved public access to information regarding the competence, professional standing and independence of financial advisers, including:

- ***a. an enhanced register of financial advisers be established that includes employee advisers and their affiliations as well as information on each adviser's educational qualifications and current status; and***
- ***b. affiliated providers of general sales advice be prohibited from calling themselves advisers.***

5.2.6 Professional conduct

Even with improvements to minimum educational standards and increased transparency regarding adviser affiliations, problems will continue with the integrity of the financial advice industry unless more is done to lift professional standards and assure the conduct of those licensed to provide financial advice. According to Roy Morgan Research, only 28 per cent of the population rate financial planners as either 'very high' or 'high' for ethics and honesty (Roy Morgan Research 2014).

While the Future of Financial Advice (FOFA) reforms were intended to address these issues, the wind back of these reforms by the current Government has substantially diluted their effect. National Seniors maintains its vigorous opposition to these amendments and continues to call for a reinstatement of the essential consumer protections in the original FOFA reforms, including:

- advisers must be required to take into account their clients' individual circumstances when they deliver scaled advice;
- the catch all provision in the best interest duty must be reinstated;
- the two year opt in requirement must be reinstated; and
- the annual fee disclosure statements for pre-2013 clients must be reinstated.

In addition, as outlined in our initial submission, National Seniors considers that only those individuals who comply with professional practice and competency standards set out in Australian Professional Educational Standard (APES) 230 should be licenced to supply personal financial services. A copy of this standard is provided as an attachment to this submission.

Recommendation 11:

To assure the professional standing and conduct of personal financial advisers:

- ***a. the core consumer protections contained in the original Future of Financial Advice Reforms be reinstated, including provisions in relation to scaled advice, the best interests duty, the two year opt-in and the annual fee disclosure statement for pre-2013 clients; and***
- ***b. the tougher of the Accounting Professional and Ethical Standards Board (APES)230 standards (at Attachment 1) be adopted by ASIC as a licensing requirement for financial advisers.***

5.2.7 Regulatory tools

The Inquiry Interim Report has pointed to an important gap in the regulatory framework whereby ASIC, while having the power to cancel an Australian Financial Services Licence or credit service and ban persons from providing financial or credit services, cannot prevent a person from managing a financial services or credit business.

The recent Senate Economics References Committee Inquiry into ASIC's performance also recommended that government consider the banning provisions in the license regimes with a view to ensuring that a banned person cannot be a director, manager or hold a position of influence in a company providing a financial service or credit business.

To ensure completeness of ASICs powers, National Seniors would support amendments along these lines.

Recommendation 12:

That ASIC's power to ban advisers be enhanced to include the power to prevent a person from managing a financial services or credit business.

5.3 Regulatory architecture

While the Interim Report finds no case to make significant changes to the regulatory framework governing Australia's financial system, it does canvass some refinements to current arrangements.

National Seniors wishes to submit comments in the following three areas of potential refinement:

- regulatory perimeters
- regulator independence
- regulator mandates

5.3.1 Regulatory perimeter

Of particular interest to older Australians is the regulatory perimeter around superannuation funds and managed investment schemes. As the Inquiry Interim Report notes, although managed investment schemes are operationally similar to superannuation funds, they are not subject to prudential supervision by APRA but, rather, are monitored by ASIC. This raises the question as to whether there should be alignment between APRA regulated superannuation funds and registered managed investment schemes.

Regulatory 'alignment' could mean that both superannuation funds and managed investment schemes are subject to APRA's prudential supervision; or that both are instead monitored by ASIC.

Given the mandatory nature of superannuation and the significant exposure of fund members to investment risk, National Seniors strongly believes there should be no relaxation of prudential regulation of superannuation funds through APRA. Rather, APRA should be empowered to extend its prudential oversight to managed investment schemes to better manage both systemic and consumer risks in the non-prudentially regulated investment sector.

Recommendation 13:

That APRA be empowered to extend its prudential oversight to managed investment schemes to better manage both systemic and consumer risks in the non-prudentially regulated investment sector.

5.3.2 Regulator independence

Noting the expanding mandates of financial regulators – particularly ASIC – yet their increasing vulnerability to budget cutbacks, the Inquiry Interim Report has raised the issue of whether APRA and ASIC should be moved to a more autonomous funding model based on industry fees.

First and foremost, National Seniors considers that ASIC and APRA must be properly resourced if they are to fulfil the functions the community expects of them. The Inquiry has thus far made a case for more rather than less regulatory oversight of financial markets and institutions, as has the recent Senate inquiry into ASIC which highlighted the need for ASIC to be more proactive in its enforcement activities in order to provide effective consumer protection.

An industry-based funding model is consistent with standard cost-recovery principles and with regulatory practice in other jurisdictions and, if this is the best means of ensuring that financial market regulators have access to the resources they need to fulfil their mandates, then National Seniors sees no objection to moving in this direction.

5.3.3 Regulator mandates

National Seniors sees no compelling case for major change to the existing mandates of Australia's financial regulators. In particular, we see no reason to separate out consumer protection functions from ASIC's conduct and market integrity functions or assign them to a new body.

In terms of refining existing mandates, National Seniors would support the proposal to strengthen ASIC's capacity to have regard to competition considerations. Increased competition can drive better outcomes for consumers and assigning ASIC a competition objective would bring it into line with APRA and encourage ASIC to choose the most competition friendly regulatory response consistent with its other regulatory objectives.

In addition, strengthening ASIC's enforcement focus and providing for stronger penalties would also send a clear message to financial market participants that their activities are to be put under closer scrutiny.

Recommendation 14:

a. That further consideration be given to allowing ASIC to have regard to competition considerations;
b. That ASIC's enforcement powers be strengthened through provision for stronger penalties.

6 Emerging Trends

The Inquiry has identified three emerging trends with significant implications for the future of the financial system, viz:

- ageing and retirement incomes
- technology
- international integration

National Seniors makes the following further submission in relation to the first two of these trends.

6.1 Ageing and retirement incomes

National Seniors welcomes the prominence given in the Inquiry Interim Report to the role of the financial system in meeting the significant retirement income challenges facing current and future generations of Australians. How it adapts and responds to Australia's retirement income challenges will be a significant test of the financial system going forward.

The Interim Report notes that most individuals risk outliving their savings because:

- the retirement phase of superannuation is underdeveloped and does not meet the risk management needs of many retirees; and
- there are regulatory and other policy impediments to developing income products with risk management features that could benefit retirees.

While noting that no single financial product encompasses all three key features of retirement income streams desired by retirees – viz: income efficiency, protection against longevity, investment and inflation risk and flexibility (including the ability to make one-off withdrawals) – the Interim Report is canvassing a range of policy options for moving the retirement income system towards better satisfying each of these requirements.

The proper development of these product options can only start with a clearly articulated national retirement income strategy that considers financial, taxation and social security interplays.

Recommendation 15:

That the Australian government develops a holistic, comprehensive and clearly articulated cross-portfolio retirement income strategy that considers taxation, social security and financial system overlaps and interactions following national reviews of these specific areas.

6.1.1 Policy incentives

The Interim Report suggests that the tax and social security systems could be used to create stronger incentives to take superannuation benefits as an income stream – for example, policies that discourage lump sums (with the exception of those with small account balances).

National Seniors' initial submission identified the failure of current retirement income policies and products to address longevity and investment risk as one of the most significant issues facing older Australians. Our submission also identified a number of policy and regulatory impediments to the take-up of income products that could afford greater protection against these risks.

Before considering any new policy incentives for retirees to take their super benefits as an income stream, National Seniors considers that the first priority should be to remove or otherwise address existing policy and regulatory impediments to them doing so, including:

- prescriptive rules restricting earnings tax exemptions on superannuation pensions - in particular minimum annual withdrawal rules;
- higher relative tax rates on interest-earning assets;

- high capital adequacy requirements for providers of annuity products; and
- the inability of retirees under current social security rules to convert home equity into an income earning asset without loss of pension asset test exemption on that asset.

6.1.2 Defaults

The Inquiry Interim Report canvasses the option of government requiring part of an individual's super balance going to income streams that protect against inflation and longevity risk, unless the individual opts out. In support of the use of such a default option, the Report notes that pension schemes that have annuities as a default option tend to have high rates of annuitisation, implying that a broader default strategy would achieve a similar outcome but without denying individuals the freedom to choose a different option. It is noted that the Cooper super review also recommended that default products should incorporate a retirement income stream product.

The Report also canvasses the option of compulsorily requiring individuals to take part of their super balance as an income stream, noting that this would overcome problems of adverse selection, improve risk pooling and bring down the overall price of annuities.

National Seniors would **not** support making it compulsory to take some part of superannuation as a commutable income stream. Individual circumstances differ and some individuals could be disadvantaged by such a requirement. Given that super funds with annuities as a default option tend to have high rates of annuatisation, a default scheme with an opt-out provision represents a superior option as it would achieve the objective of increased take up take up of annuities while preserving individual freedom of choice. By increasing take-up, a default option with opt-out provisions could also contribute to overcoming adverse selection problems and help deepen the market for annuities, thereby improving competition, innovation and affordability.

> *"National Seniors would **not** support making it compulsory to take some part of superannuation as a commutable income stream"*

That said, such a move would represent a very significant change in superannuation policy settings and would require significant industry and community consultation before becoming a recommended approach. In this regard we note that, while providing greater protection against longevity, investment and inflation risks, annuity products do suffer a number of disadvantages and these would need to be fully considered before going down this path.

Recommendation 16:

That there be no compulsion for individuals to take part of their superannuation balances as a commutable income stream, but that further consideration be given to a default arrangement with opt-out provisions, subject to full public consultation and consideration of all risks, costs and benefits.

6.1.3 Regulatory and policy impediments

The Inquiry Interim Report suggests that current regulatory and policy barriers are stifling innovation and preventing the development of an appropriate range of retirement income products. It highlights in particular the rigidity of rules governing eligibility of retirement income products for tax and social security exemptions and protracted processes for approving new products.

Another significant barrier to the development of alternative and affordable retirement income products are the high capital requirements imposed on providers of annuity products who take on an exposure to longevity, investment and inflation risks. Arguably, these capital requirements would be lower but for the scarcity of very long dated bonds in wholesale markets which could facilitate the transfer of these risks.

National Seniors agrees that current barriers are stifling innovation and preventing the development of an appropriate range of products that could help insure retirees against longevity and inflation risk.

National Seniors strongly supports the adoption of a principles based approach to determining eligibility for tax and social security exemptions for retirement products, along with a streamlined approval process for new products

In this regard we welcome the Government's recently launched review of Australia's underdeveloped retirement income industry and the release of a discussion paper outlining possible measures to overhaul the regulatory regime governing the drawdown phase of superannuation, including the removal of specific impediments to the development of deferred lifetime annuities, and potential changes to the minimum drawdown rules.

Recommendation 17:

That, to remove current regulatory impediments to the development of an appropriate range of retirement income products, the current rules based approach to determining eligibility for tax and social security exemptions for retirement products be replaced with a principles based approach, and that the process for approval of new products be streamlined.

6.1.4 Deferred lifetime annuities and group self-annuatisation

The Inquiry Interim Report notes that there are certain potentially useful retirement income products that do not satisfy current rule-based tax exemption criteria. These include:

- deferred lifetime annuities (DLAs), whereby an individual, upon retirement, could purchase a deferred annuity that would provide a steady income stream after the age of, say, 85 years, and
- group self-annuatisation, whereby participants contribute funds to a pool that is invested in financial assets and regular payments from the pool are made to surviving members, with pooling of mortality risk obviating the need for capital-backed guarantees.

The Inquiry is seeking feedback on whether such products would be useful for Australian retirees and whether there are examples of other potentially suitable products.

National Seniors' provisional view is that deferred lifetime annuities and group self-annuatisation are two categories of product that could offer effective longevity protection at a more affordable price.

Deferred lifetime annuities could be a suitable default product if part of retirees' superannuation were to default into an income stream.

6.1.5 Access to home equity

Given that many retirees hold significant equity in the family home, the Inquiry Interim Report is interested in feedback on what regulations impede the development of products to help retirees access home equity to supplement their retirement incomes.

Reverse mortgages represent one option for accessing home equity, but take-up of home equity conversion loans remains low. National Seniors considers this may be less a result of regulatory impediments and more a judgement that such loans represent poor value for money. While reverse mortgages may be useful for one-off expenses such as to undertake needed home renovations or purchase consumer durables, their use to generate an ongoing income stream does not appear attractive.

On the other hand, there are policy and regulatory impediments more generally to converting home equity to income. As noted in National Seniors' initial submission, the exemption of the family home from the age pension assets test encourages older people to consolidate their assets in the family home. While the family home does not count towards the assets test, proceeds from the sale of the home do. Thus downsizing the family residence in order to release capital is likely to reduce age pension eligibility. Given the value of the family home is already excluded from the assets test, 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.

High rates of land transfer (conveyance) duty imposed by states on the transfer of housing assets also represent a significant disincentive to downsizing in order to release equity from the family home. A targeted one-off exemption from conveyance duty should be available to eligible retirees wishing to downsize in order to release equity for investment in an eligible retirement income generating product. Such exemptions should not be restricted to new dwellings.

6.2 Technology

National Seniors welcomes the Inquiry Panel's acknowledgment of the particular issues for senior Australians arising from technological advances in the financial system, including:

- risk of exclusion as electronic service delivery becomes the default; and
- greater sensitivity to privacy, safety and security

While acknowledging the many consumer benefits that have accrued from technological innovation in financial products and services, National Seniors initial submission highlighted the potential for senior Australians without access to, or skills in, the use of these technologies to be increasingly marginalized by the shift of the financial system to on-line services and mobile applications.

For example, when financial institutions and providers 'shut down' services that do not rely on the internet, people with limited access to or ability to utilise the internet may inadvertently be cut off.

Our submission also highlighted the particular sensitivity of older Australians to issues of privacy, safety and security. National Seniors' research shows 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 online banking less 'safe'.

Some key issues for older Australians in relation to technological innovation include:

- The greater degree of difficulty experienced by older Australians in keeping up with technological changes in order to take advantage of the benefits offered by new products, services and media; and to avoid exclusion;
- Consumer protection issues arising from greater complexity and reduced transparency of financial products; and
- Addressing the greater sensitivity of older Australians to privacy, safety and security issues.

6.2.1 Technologically neutral regulation

The Inquiry Interim Report notes that, while some current regulations implicitly or explicitly require particular technologies (e.g. disclosure regulation assumes paper based delivery of disclosure information), regulation should in principle be technologically neutral in order to ensure a level playing field, provide appropriate regulatory coverage and avoid inhibiting future technological innovation.

To this end the Report proposes that regulatory settings should enable electronic service delivery to become the default, while noting that opt-out provisions are required to manage access needs for certain community segments.

As recommended in our initial submission, the Panel should consider whether additional protections should be included - possibly in an industry code of conduct - to ensure that when financial institutions and providers plan to 'shut down' services that do not rely on the internet or contemporary ICT technologies, due care is taken to avoid excluding, marginalising or disempowering those who with limited access to or ability to utilise these technologies.

Recommendation 18:

That, if regulatory settings are to be changed to enable electronic service delivery to become the default, there must be appropriate safeguards to enable those who are unwilling or unable to use electronic service delivery modes to continue to get access to relevant consumer protections.

6.2.2 Regulatory perimeter

Given ongoing technological change, there is a need for continuous review of the perimeters of financial regulation to ensure that firms outside the regulatory net that may be performing similar functions to the traditional financial sector do not pose new systemic risks or raise competitive neutrality concerns.

The Inquiry Interim Report suggests a central mechanism could be established to monitor and advise government on technology and innovation.

National Seniors believes a central monitoring and advice mechanism could assist in identifying emerging risks where technological innovation allows entities outside the regulatory net to provide financial services and products. It could also assist in addressing transitional issues for potentially excluded groups when new technologies are being introduced.

6.2.3 Privacy

While access to increasing amounts of customer information has the potential to increase efficiency and enhance the capacity of firms to tailor products and services to individual preferences, it does raise privacy concerns.

To manage privacy risks from access to growing amounts of customer information while at the same time enabling consumers to benefit from more customized services and increased competition, National Seniors supports proposals to give consumers more access to their own information and opt-in arrangements for use of individual data.

6.2.4 Cyber security and digital identity

Pointing to evidence of an increase in breaches of data security, the Inquiry Interim Report notes that there is currently no requirement to report breaches involving personal information to the Office of the Australian Information Commissioner. The Report also notes that Australia's cyber security strategy is the least up to date among those of the US, UK, Canada, New Zealand, France, Germany, Japan and Singapore.

National Seniors supports the introduction of mandatory data breach notifications to affected individuals and the relevant government privacy agency.

National Seniors considers the Government has a key role to play in addressing cyber security risks, including reviewing and updating the 2009 Cyber Security Strategy.

Government can also play a key coordinating role in the promotion of trusted digital identities. Given that financial institutions have a clear interest in the development of trusted digital identities, it will be important to ensure that any national strategy does not stifle the further development of innovative digital identity solutions by the private sector.

7 Conclusion

In conclusion, National Seniors considers that the directions outlined in the Inquiry Interim Report would represent a better balance between efficiency, stability and fairness than current regulatory settings by:

- strengthening the safety and stability of Australia's financial system,
- improving the quality and independence of financial advice,
- reducing investment, inflation and longevity risk for retirees, and
- enabling technological advances while protecting vulnerable consumers from exclusion.

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National Seniors Australia
Level 18, 215 Adelaide Street, Brisbane QLD 4000
GPO Box 1450, Brisbane QLD 4001
Phone: 07 3233 9091
Fax: 07 32119 339
Email: general@nationalseniors.com.au
Web: nationalseniors.com.au

National Seniors
Australia