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Manager
Financial Services Unit
Financial System and Services Division
Markets Group
The Treasury
Langton Crescent
Canberra ACT 2600

Email: ProfessionalStandards@Treasury.gov.au

Dear Manager,

Lifting the professional, ethical and education standards in the financial services industry

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the request for comments in regards to Treasury's consultation on the recommendations of the Parliamentary Joint Committee on Corporations and Financial Services' (PJC) inquiry into proposals to lift the professional, ethical and education standards in the financial services industry.

About ASFA

ASFA is a non-profit, non-politically aligned national organisation. We are the peak policy and research body for the superannuation sector. Our mandate is to develop and advocate policy in the best long-term interest of fund members. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

General comments

ASFA strongly supports lifting the professional, ethical and education standards in the financial services industry and generally supports the recommendations of the PJC.

We are of the view that the current climate of significant public and political concern about the professional and ethical standards within the financial advice industry presents an historic opportunity to tackle, head on, the issues that have plagued the industry for decades.

The solutions to these problems lie in changing the existing culture of the industry and imposing personal accountability on every financial adviser. For these reasons we support a regime where individual advisers are required to be members of a properly authorised professional association which sets and monitors appropriately high standards of professionalism and ethical behavior.

Specific comments

Professional Associations

The PJC has recommended that in order to provide financial advice on Tier 1 financial products an adviser will have to, amongst other things, be a member of a professional association approved by the Professional Standards Councils (PSC).

We have some concerns about multiple professional associations and about PSC approval.

One of our concerns with multiple professional associations is that this creates unnecessary duplication, the risk of different standards and greater risk due to lack of scale. A single association regime would also have synergies that would be lost in a multiple association regime. Our concern is that any additional costs could be significant and will inevitably be passed on to the consumer in an environment where price is often an inhibitor to people seeking financial advice.

Our second concern relates to maintaining consistency of codes and standards between the bodies and the additional regulatory oversight needed to monitor them.

Currently there are properly working examples of both models. Practicing solicitors and actuaries are required to be members of a single professional association while accountants, on the other hand, can choose between associations.

We note that a single association model appears monopolistic. Given the non-commerciality or need for competitiveness in the professional association arena we do not consider this to be a problem.

For the abovementioned reasons we believe it is in the best interest of consumers and the industry for the Government to adopt a single professional association regime. This being said if the Government opts for multiple professional associations it will be essential that they are required to have consistent codes and standards.

Our primary concern with the PSC approval of professional associations is the optics of limiting liability of financial advisers (and imaginably licensees) which is the cornerstone of the PSC model. This is arguably just optics as the PSC contends that rather than being a limited liability scheme it is actually a 'compensation assurance' scheme. Public education could possibly correct the optics problem. While the PSC approval process is complex and time consuming it is also rigorous and risk based.

An alternative to PSC approval would be for another government agency (such as ASIC) to be the approving entity, similar to the way the Tax Practitioners Board has the role of approving associations in the tax advice industry. We would be supportive of such an approach only if it would apply the rigor that the PSC approval process applies.

Education Standards – Intra-fund advice

We support the recommendation that the minimum education standards for financial advisers should be an AQF level 7 degree qualification. We also agree that financial advisers providing comprehensive advice should be required to complete a professional year, pass a registration exam and undertake ongoing professional development.

We have concerns that these additional requirements may place unnecessary costs and may limit the number of advisers available in limited advice situations such as the provision of intra-fund advice. Evidence

suggests that intra-fund advice is valuable to members, well sought after and leads to better outcomes for superannuation fund members.

The provision of intra-fund advice is regulated by s99F of SIS and is very limited in scope, basically allowing the adviser to provide advice on a members' interest in their fund. ASIC, in Information Sheet 168, have stated that in their view the types of advice for which a superannuation trustee is likely to be allowed to collectively charge, where the advice is not ongoing [intra-fund advice] include advice to a member about:

- The extent of cover provided by the insurance arrangements that apply to the member's interest in the fund and the types of cover that may be suitable for them;
- Increasing contributions
- Changing investment options.

Given the very limited scope of intra-fund advice we believe that advisers who are restricted to only providing such advice should not require the same level of training that providers of comprehensive advice require.

Clearly intra-fund advice must be given competently and professionally. We believe that a tiered licensing regime would be appropriate in these circumstances. Arguably an adviser who is restricted to providing intra-fund advice should require a relevant tertiary degree and a post-graduate diploma tailored to the intra-fund advice topics. The requirement for such advisers to complete a professional year and a registration exam, that would imaginably cover the full gamut of advice well beyond the intra-fund advice topics, has the potential to substantially add to costs with little or no benefit to consumers/members.

Education Standards – retirement specific subjects

The significant change in superannuation fund member demographics, where there will be a significant shift of superannuation members moving from the accumulation stage to the de-accumulation (pension) stage, will result in a vastly growing need for specialist retirement advice.

In regards to 'core' and 'specialist' topics which should be included in the financial planning curriculum we believe that it is essential that there be a specialist topic relating to retirement.

We also support ethics being a mandatory education requirement as well as an industry standard, a breach of which should result in action by the professional association.

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If you have any queries or comments regarding the contents of our submission, please contact ASFA's Policy Adviser, David Graus, on (02) 8079 0837 or by email dgraus@superannuation.asn.au.

Yours sincerely



Pauline Vamos
Chief Executive Officer