



24 November 2011

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
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Parliament House
CANBERRA ACT 2600

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Dear Committee Secretary

Parliamentary Inquiry into the Corporations Amendment (Future of Financial Advice) Bill 2011

I write in response to the Parliamentary Joint Committee on Corporations and Financial Services inquiry into the proposed *Corporations Amendment (Future of Financial Advice) Bill 2011 [FoFA]*.

Suncorp welcomes the opportunity to comment on the proposed FoFA Bill.

The Suncorp Group

Nationally, Suncorp Group Limited [**Suncorp**] is Australia's largest general insurance group by gross written premium. Suncorp offers a range of financial services including:

- Personal Insurance - AAMI, Apia, GIO, Shannons, Just Car Insurance, Suncorp Insurance, Vero Travel, Bingle and InsureMyRide
- Commercial Insurance – GIO, Vero and AAMI
- Banking - Suncorp Bank
- Life and Investment - Asteron Life, Standard Pacific, Guardian Advice, Suncorp Investment Management Limited (SIML), Suncorp Financial Services (SFS).

As a national provider of financial services Suncorp supports cost effective initiatives that aim to protect consumers and raise public awareness of the benefits of financial services. Suncorp provides financial advice to consumers through several of its operating brands and believes that the FoFA reforms are an important step towards improving the accessibility and quality of financial advice.

Intention of FoFA reform

Suncorp's understanding is that the FoFA reforms seek to ensure independent quality financial advice is provided to the consumer, an intent that Suncorp fully supports. Below we provide comment on the original issues determined by the Parliamentary Joint Committee on Corporations and Financial Services [**The Committee**] in November 2009 and explore some of the unintended consequences that may arise from the reform package.

Previous Inquiry

The Committee has previously considered financial reform in their 2009 Inquiry into Financial Products and Services in Australia. The report released after that Inquiry stated the goals of reform, which have been reaffirmed by subsequent government communications. Those goals include:



1. Safeguarding the Australian finance system against future collapses similar to those of Opes Prime and Storm financial; and
2. Improving the quality, accessibility and affordability of financial advice provided to consumers, thereby restoring trust in the financial services industry.

Rebuilding Trust

Suncorp recognises the need to improve consumer protections and restore trust in the financial advice industry. We support a number of FoFA reforms that will lead to enhanced consumer protections including:

1. Increased ASIC powers to allow the removal of persons not of good fame or character from the financial advice industry
2. Annual fee disclosure to empower customers to make informed decisions regarding the costs and benefits of financial services
3. The best interests duty expected in the second tranche of FoFA legislation. This duty will require advisors to place their client's interests ahead of their own, ensuring that at all times consumers are receiving reliable, quality advice.

Suncorp Research

Independent to these reforms, the financial advice industry has been addressing the issues uncovered in the Global Financial Crisis (GFC). Suncorp Life commissions regular independent research into consumer confidence and notes that a proactive industry approach began rebuilding consumer trust.

The most recent round of this research concluded in October 2011 found:

1. Confidence in financial advice is recovering from the downturn following the GFC. Currently 42% of Australians (approximately 3,993,693 people) indicate that they are confident obtaining financial advice will lead to a maximisation of their wealth. Up from just 30% in April 2010, this represents a significant rise in consumer confidence.
2. The cost of seeking financial advice is a leading reason why Australians are not seeking financial advice. 45% of Australians believe that seeking financial advice is likely to be too expensive. Interestingly, 53% of Australians also believe they may not have enough money to warrant seeking financial advice. Reducing the cost and promoting the benefits of seeking financial advice will be a priority of Suncorp in the immediate future with the ultimate goal of growing the number of Australians that seek regular financial advice.

Ongoing Fee Relationships – Opt-in Renewal

Asteron Life is Suncorp's leading life insurance brand. Asteron Life notes that ongoing fee relationships are a form of remuneration that is relatively unique to the financial advice industry. The structure permits advisors to provide advice, allow time for the client to realise the benefits of that advice and collect an appropriate fee based on the outcome of that advice. Ongoing fee relationships reflect the long term nature of financial advice and have a long standing history of being the preferred method of payment by both clients and advisors.

Compulsory opt-in renewal is introduced in s962N of the FoFA Bill. As stated in the accompanying Explanatory Memorandum **[EM]** the concept of compulsory opt-in renewal is designed to protect disengaged consumers from paying ongoing advice fees where they receive little or no service.¹ Asteron Life supports the intention of the opt-in renewal and appreciates the flexibility that allows advisors to collect renewals both face-to-face and electronically. However, from a practical perspective we foresee that opt-in renewal will have a variety of unintended consequences that will prevent this concept from effectively addressing the original goals of the FoFA reforms.

¹ See Explanatory Memorandum, FoFA Bill 2011, pg 5



Asteron Life believes the unintended consequences include:

1. Increased Financial Cost

It is broadly recognised that compulsory opt-in renewal will significantly increase the cost of administering an ongoing fee relationship. Such costs will unfairly impact small, independent, financial advice firms with administration costs per client estimated to be between \$50 and \$100. This financial impost on small businesses will affect their earning potential and will result in fewer financial advisors entering the market.

The opt-in renewal process will also require advisors to invest in costly customer relationship management systems/software to support the collection of on-time renewals. The establishment costs will have an unfair financial impost upon small, independent advice businesses. As a consequence, small businesses may seek support from product issuers that offer vertical integration, resulting in a loss of independence from the market.

2. Time

The proposed biannual renewal process is overly frequent and administrative in nature. It will require advisors to invest a significant amount of time and resources into the collection opt-in renewals diverting time away from providing advice and growing their business.

The time involved with opt-in renewal will have significant flow on effects to productivity and profitability of small advice businesses that cannot afford to employ administration officers.

3. Disengaged Clients

Disengagement remains a significant challenge for the financial services industry. Whilst opt-in renewal is aimed at protecting disengaged clients Suncorp believes that the end result will actually be in contrast to the original aim. The stated intent is to provide protection for disengaged clients and allow engaged clients to consider the value of their ongoing relationships. From a practical perspective however we believe that opt-in renewal will result in many valuable ongoing relationships being cancelled without the knowledge of, and against the true wishes of the client.

Asteron Life understands that in a typical household letters can begin to pile up and may be overlooked. Internal evidence also suggests that a significant number of clients miss their general insurance renewals due to being out of contact (travelling overseas), time constraints (too busy to attend to the paperwork) or simple logistical issues (out-of-date postal addresses). Generally these clients will contact us at a time that suits their needs to resolve these temporary issues.

We believe that an unresponsive or disengaged client is more commonly a reflection of temporary issues rather than a reflection of a genuine need to cease the advice relationship.

Suncorp submits that the opt-in process will place valuable, long-term advice relationships at risk of being cancelled due to temporary lifestyle and/or administrative issues such as those noted above. The increased financial cost and time impact will be a significant impost of small businesses.

In consideration of the broader FoFA reforms that increase consumer protection, Suncorp contends that the unintended consequences of opt-in renewal will outweigh the potential benefits. Suncorp recommends removal of opt-in renewal.

As an alternative to opt-in renewal the annual fee disclosure statement required under s962h could be required to reference the client's right to opt-out of the ongoing relationship. Suncorp submits that this would balance improved consumer protection against increased regulatory burden for the financial services industry.



Effect on the industry

Suncorp believes that the opt-in renewal process will increase the regulatory burden and reduce the profitability of providing advice.

Asteron Life works in partnership with a network of independent financial advisors around the country. In Australia there are currently 8,000 small businesses that employ approximately 18,000 financial advisors. We believe that opt-in renewal process will impose unfair financial burden on these businesses and may result in many leaving the market. This will reduce competition and affect the accessibility of financial advice.

The costs associated with opt-in renewal represent a significant impost for small businesses. Advisors faced with the increased costs of administering opt-in renewal will be forced to raise their fees to compensate. Consumers will be asked to bear some or all of the costs which will reduce the affordability of financial advice.

Conclusion

Suncorp supports the intent of the FoFA reforms and believes that improving the quality, accessibility and affordability of financial advice is an important goal. We support improving the quality of financial advice through increased ASIC powers, fee disclosure and the best interest's duty and we continue to support a proactive industry approach to rebuilding consumer trust.

In contrast to the stated intention of the opt-in renewal process, Suncorp believes that the process will produce a variety of unintended consequences, not least of which is the increased cost of providing advice.

It is vital for the financial advice industry that reform strikes a balance between building consumer trust and improving the accessibility and affordability of financial advice. Suncorp believes that the costs of opt-in renewal process outweigh the benefits sought and submits that opt-in renewal be removed from the FoFA Bill.

Yours faithfully

Annabelle Butler
Executive Manger
Public Policy and Stakeholder Management

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