



30 October 2024

By Email: economics.sen@aph.gov.au

To: Senate Standing Committees on Economics

Dear Sir or Madam,

Re: Inquiry into Compensation Scheme of Last Resort (CSLR) and in particular Dixon Advisory & Superannuation Services Pty Limited (Dixon Advisory)

Background

The Advisers Association Ltd (TAA) was established in 1925 as a non-profit member based association. TAA represents over 400 small businesses and 900 plus advisers authorised by the Charter, Hillross and AMP Financial Planning licensees or are self-licensed via Jigsaw.

TAA supports policies that enhance consumer confidence and access to affordable quality professional advice.

TAA actively collaborates with other professional associations representing financial advisers, and fully supports the position taken by the Financial Advisers Association of Australia (FAAA) and their submission to this inquiry.

Submission

TAA values the opportunity to make this submission on behalf of our members. The firms most affected by the CSLR levy are no longer big corporate enterprises but everyday small business owners who have dedicated their lives to helping and enhancing the financial position of everyday Australians. These small businesses are already under significant cash flow pressures, due to the cost and impact of the high number of changes already being implemented.

A compensation scheme of last resort is not a new concept and, in principle, it's hard to disagree with a scheme to compensate consumers for losses due to financial firm misconduct when firms cannot pay AFCA determinations. However, our members have the following concerns with the implementation of the scheme:

- The CSLR levy disproportionately affects small financial advice businesses and individual advisers who are already facing financial strain.
- The retrospective application of the levy is unjust, holding current and new advisers accountable for past failures like Dixon Advisory.
- The estimated \$5,709 CSLR levy, combined with the \$2,818 ASIC levy and other costs of being licenced, imposes an excessive financial burden on advisers.
- This burden will likely be passed onto clients, undermining the government's goal of increasing access to affordable financial advice.
- The CSLR scheme does not include Managed Investment Schemes, which have been a significant contributor to past consumer financial losses and featured in Dixon Advisory.
- Holding advisers responsible for the failures of large corporations like Dixon Advisory is inequitable and unsustainable.

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- The government's reduced commitment to funding the scheme's initial costs raises concerns about its long-term viability.

Not surprisingly, these concerns are closely aligned with the key issues raised by the FAAA that represents a larger group of professional advisers.

They also align with the findings and recommendations of the "Compensation arrangements for consumers of financial services" report by Richard St. John (April 2012)¹ (Report), which involved extensive consultation with industry stakeholders and consumer groups. The Report emphasised the importance of stakeholder input in shaping effective compensation policies and the need for a robust and equitable compensation framework that also holds providers accountable. TAA has previously recommended that the Government act on the recommendations of this Report, in order to properly address many of the 'root cause' reasons to ensure any CSLR is sustainable and consumers are appropriately compensated.

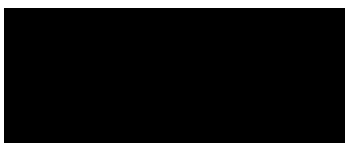
With regard to the failure of Dixon Advisory, our members are concerned that Dixon Advisory was found to have repeatedly failed to act in the best interests of its clients. The Australian Securities and Investments Commission (ASIC) identified that several representatives did not provide appropriate advice tailored to clients' circumstances, leading to substantial financial losses and costs for many clients, particularly those involved with the US Masters Residential Property Fund (URF).

ASIC's actions against Dixon Advisory highlighted significant shortcomings in regulatory oversight and effectiveness. Our members reported concerns about Dixon Advisory activities over ten years ago, yet little action was taken until recently. Despite the severity of the breaches, no individual advisers or executives faced personal accountability, which raises broader issues about the effectiveness of regulatory frameworks in holding financial service providers accountable. As Richard St. John stated in the covering letter to his Report, and noting that it is now advisers that are picking up these costs, not licensees:

'the regulatory platform for financial advisers and other licensees needs to be made more robust and stable before a safety net, funded by all licensees, is suspended beneath it...'
this is *'...a necessary step before further consideration is given to a scheme under which the cost of uncompensated claims against one firm would be passed on to other firms who are not so remiss.'*

In conclusion, TAA welcomes this inquiry and supports the principle of a compensation scheme of last resort but urges the government to address the aforementioned concerns to ensure its fair and effective implementation.

Yours sincerely



Neil Macdonald
Chief Executive Officer

¹ https://treasury.gov.au/sites/default/files/2020-01/final_report_cacfs.pdf