CORPORATE SUPER SPECIALIST ALLIANCE

9th December 2011

Dear Sir/Madam,

Corporations Amendment (Future of Financial Advice) Bill 2011 and Corporations Amendment (Further Future of Financial Advice Measures) Bill 2011

The Corporate Superannuation Specialist Alliance (CSSA) appreciates the opportunity to submit to the Parliamentary Joint Committee. Our submission is attached.

We do not believe that the FoFA legislation and MySuper legislation can be viewed in isolation as there is significant crossover between the two. As such, we believe that the impact of the proposed MySuper changes needs to be considered along with FoFA. The timing of implementation of changes also has some cross-over, and this will confuse everyone including, most importantly, the members of superannuation funds.

Any queries can be directed to:

Gareth Hall, Treasurer

Douglas Latto, President

Yours Faithfully,

Douglas Latto
President CSSA

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About the CSSA

The CSSA represents corporate superannuation specialist advisory businesses. CSSA members provide financial advisory services to thousands of corporate superannuation funds across metropolitan and regional Australia and play an essential role in managing Australia's large and growing superannuation savings pool. CSSA members work with Australian companies and their employees to provide them with improved life insurance and superannuation outcomes via their superannuation member accounts. CSSA members provide a broad range of services to corporate super plans at four levels, – the employer level; the policy committee (representative body) level; the individual super fund member level and to super fund members collectively. These services help employers and policy committees ensure that members are getting competitive benefits and features, at a competitive price, and that members have access to general advice and information to help them improve their decisions about their retirement savings and life insurance choices.

We believe that the proactive provision of services, general advice and ultimately financial planning advice in the workplace is critical to achieving the Government's goals of improving access to financial advice and maximising retirement incomes for members.

CSSA members conduct thousands of group seminars and "one on one" meetings with members of our employer funds each and every year, taking information and advice to their workplaces to improve financial literacy. The perceived value of these services was highlighted in recent CoreData research, a copy of which is attached.

According to research conducted in 2008 by Rice Warner Actuaries, large Corporate Super Master Trusts charge members an average fee of 0.79% per annum compared to Industry Super funds at 1.07%. We believe that this is, in part, due to our advocacy on behalf of our clients and their employees, our constant reviewing of our client's funds, and our negotiation of lower fees with Master Trust providers. The insurance experience is the same, with group insurance inside Corporate Superannuation being significantly less expensive than retail insurance. This is again, in part, due to negotiations with insurers on behalf of employers and their employees.

Value of Advice

Research clearly demonstrates that people are more likely to achieve their goals in retirement and are more likely to be adequately insured if they have sought financial advice.

Providing financial education and advice in the workplace allows hundreds of thousands of people access to financial advice that would not otherwise be available. Our major concern is that CSSA members will not be able to be remunerated for the work they perform once FoFA is implemented, as commissions are to be banned on both Superannuation investment and Group Insurance within Superannuation. There is no proposed model for fees to be charged for services provided on a group basis, and we believe this needs to be addressed.

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Insurance Service Fee

The Exposure Draft and Memorandum state that commission on insurance within superannuation would only be paid within Choice funds/products but group insurance would be excluded.

It is important to understand that payments received by corporate super specialists are for Insurance Services provided and **not** for providing personal advice. These services include

- Negotiating with insurers on an ongoing basis for reduced premiums and better features (such as higher levels of automatic cover, this requires less evidence of health from members).
- Ensuring the accuracy of the insurance data (an area of frequent errors)
- Ensuring members receive their full formula entitlement and are not restricted to automatic acceptance levels.
- Assisting members with all aspects of applications and claims.

Ultimately group insurance is just a solution that is more beneficial (with lower costs and tailored features) than a series of individual contracts and it makes no sense that payment can only be made from the least efficient solution. Removal of commissions will create an unlevel playing field and could result in advice to a consumer that sees them using a less appropriate insurance solution.

There is also a distortion in the market with commission being paid on group insurance outside of super but not inside. This could lead to inappropriate solutions being offered to clients.

Commissions on group insurance are currently paid on an ongoing basis and generally range between 0 and 20% per annum. There is no upfront commission payment made.

The CSSA recognises that it is inappropriate that commissions should be included in the premium when no service is being delivered.

The CSSA proposes that if commissions on group insurance within corporate super accounts are banned then, where Insurance Services are provided to an employer group, then an Insurance Service Fee should be allowed on a "dial up" basis. We suggest that an explicit Insurance Service Fee, which defaults to zero, can be charged to all members at an agreed percentage with the consent of the client at the workplace level (the group client being represented by the Policy Committee or the Employer). This is specifically relevant when a tailored default insurance strategy is selected by an employer (rather that the standard default strategy).

Effectively the Insurance Service Fee would operate within group insurance in a similar manner that asset-based fees operate within investment and superannuation (i.e. a premium-based fee). This should ensure that only those receiving Insurance Services are paying this fee.

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Opt-In – Renewal Notice Obligations

The 'opt-in' proposal requires financial advisers to provide new clients with a renewal notice every two years. The government has stated that the opt-in measure will not 'create a significant impost' on advisers who maintain regular contact with their clients and have referenced Rice Warner's estimate that the cost of opt-in will only be around $11 per client.

We are seriously concerned that the cost of opt-in and the renewal notice has been grossly underestimated, not taking into account the administrative and compliance costs involved.

The additional cost of opt-in will increase the cost of advice, which will ultimately be borne by the client. This is contrary to government's FoFA objectives of decreasing red tape and making advice more affordable. Clients already have the opportunity to opt-out of advice at any given point in time by terminating the relationship or service with the adviser.

We are therefore opposed to Opt-In.

In addition to providing new clients with a renewal notice every two years, fee disclosure statements must also be provided every 12 months in order to charge ongoing advice fees to retail clients. The fee disclosure requirements are excessively onerous in light of existing disclosure requirements already in place. We feel this is therefore unnecessary.

Future of Financial Advice Commencement Date

The proposed operative date of the 1st July 2012 is approaching quickly, and we are extremely concerned that there will be insufficient time between the finalisation of the proposed reforms and the current commencement date. As FoFA and MySuper are so interwoven we would suggest that they should both be implemented with the same start date, which should be no sooner than 1 July 2013.

Conclusion

We applaud the government's objectives of removing red tape and making low-cost good quality advice more accessible. Our concern is that a number of the FoFA proposals will run contrary to these goals, and will in fact not provide consumers with any increased protection from failures such as Storm Financial. It is our view that a number of the key proposals will adversely affect consumers and therefore should be reconsidered.

We welcome the opportunity to present in front of the committee if there are any questions or if clarification is required.