

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 69

Topic: Financial Services Licences – Shadow Shop

Hansard Page: Tuesday 29 May 2012, page 98

Senator BUSHBY asked:

Senator BUSHBY: I understand from the media reports that there is not going to be any action taken against anybody who really did not come up to standard. Is that correct?

Mr Kell: It depends on what you mean by 'action'. All the advice that was categorised as poor has received careful analysis. There are some firms that had advisers in that category that we are having follow-up conversations with.

Senator BUSHBY: So you are looking to educate?

Mr Kell: It is about some of the issues that we have seen, some of the potential compliance concerns that we think those poor pieces of advice have raised. Some of the consumers who received that poor advice have been provided with the opportunity to obtain alternative sources of advice from other planners through an arrangement that we have had with the FPA.

Senator BUSHBY: There is follow-up action.

Mr Kell: There is certainly targeted action, in particular to some of the advice that was categorised as poor.

Senator BUSHBY: But there will not be any action taken with respect to financial services licences on that basis? Maybe that comes later.

Mr Kell: It is important to understand that the shadow shop is not a formal surveillance as such.

Senator BUSHBY: That is what I was trying to establish.

Mr Medcraft: It is meant to be a constructive exercise, and it is with that theme that we are approaching it. That is how we have approached it with the industry in discussing the results, and I think that is reflected in the follow-up.

Mr Kell: We do not obtain documents in the same formal way that we do in a surveillance, so it has a different flavour because of that.

Senator BUSHBY: How often do you intend to do an exercise like that?

Mr Kell: It had been some time since the last shadow shop, in part because one was due during the GFC. We did not think that it was particularly productive to undertake a shadow shop at that stage, so it was a few years longer than we would have liked. We intend to retain shadow shops as part of our regulatory tool kit and we are certainly considering one in the area of advice around switching to self-managed super funds at present. It will certainly be one of the regulatory tools we use in an ongoing fashion, but they are quite resource intensive.

Senator BUSHBY: I was going to ask about that. Are you able to quantify what an exercise like this costs?

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Mr Kell: I could take that on notice. To give you a sense, the consumers involved actually pay for the advice themselves. They must genuinely be seeking and wanting advice as part of the project, but overall it is quite a resource-intensive project. We will take that issue on notice.

Answer:

The consumers in the shadow shop paid for their own advice and were given a token incentive by the field work agency. The project team running the shadow shop consisted of four full time ASIC staff for a period of ten months. We further brought in our internal financial adviser analysts to do the file reviews on a needs basis. The field work agency that recruited the consumers and acted as conduit between them and ASIC was awarded the contract for \$149,600. This is listed in ASIC's answer to BET136. There was also an additional contract variation for the field agency to undertake some qualitative interviews with the consumers, which was \$19,800.