

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 83

Topic: General modelling/market impacts

Hansard Page: Written

Senator Bushby asked:

1. What modelling has been done on the impact of the FoFA reforms?
2. Does Treasury expect the number of financial advisers to increase or decrease in the short to medium term?
3. Has the increased cost to industry of the reforms been estimated? If not why not?
4. Does Treasury expect compliance costs to increase for advisers compared to current levels?
5. What is the expected increase in compliance costs for advisers?
6. What is the expected impact on the cost of advice?
7. Does Treasury expect more people to seek advice as a result of these reforms?
8. What market impacts does Treasury expect as a result of the reforms: more or less competition? Greater or lesser industry concentration? Impact on small business? Greater or lesser choice of products and investment platforms?

Answer:

1. Treasury has received modelling/research commissioned by various stakeholders which it has considered in its analysis and advice to Government.
2. Advisers will be required to reform their business models and compete on a fee-for-service basis. As confidence in the industry is enhanced as a result of the reforms and more Australians access financial advice, the Government expects that the advice industry may grow as a result.
3. Treasury has considered the benefits and costs of the reforms to business and consumers in its advice to Government.
4. Any initial compliance costs for advisers as they adjust systems and processes for the new regulatory requirements are likely to diminish as the reforms are embedded in ongoing business practices.
5. Compliance costs will be different for each adviser because of the variance in business models and client bases.
6. With greater transparency of advice costs, competitive pressures are expected to put downward pressure on the cost of advice.
7. As confidence in the industry is enhanced, greater demand for advice is expected. Also, any increase in the provision of 'scaled' or 'modular' advice may result in more people seeking financial advice.

8. We anticipate that competition will be enhanced as the cost of product and advice become more transparent. Where commissions will be prohibited, this will force product providers to compete with one another on price and quality for the consumer, rather than by paying commissions to financial advisers. There has been consolidation in the financial advice market for some time, and we would expect this trend to continue after the introduction of the reforms. There is already a wide variety of financial products available in the market, and Treasury has no reason to expect the number of financial products being offered to reduce.