

**FAXED**  
5/6/02

3 June 2002

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



Dear Secretary

Re: Inquiry into Financial Services Reform Act 2001

This submission is made by Insurance Australia Group to the Parliamentary Joint Committee on Corporations and Financial Services. It relates to the Committee's inquiry into the regulations and ASIC Policy Statements made under the *Financial Services Reform Act 2001*.

Insurance Australia Group (formerly the NRMA Insurance Group) (IAG) is the largest Australian general insurance group with more than 7 million policies in force accounting for approximately 20% of all premium underwritten by the private sector in Australia. Companies in the group provide a range of financial services products including health insurance, investments products, superannuation and other retirement services. IAG has more than three million insurance and financial services customers, a growing internet presence and over 200 offices across Australia.

IAG and Financial Services Reform

Insurance Australia Group (IAG) has been active in the policy development process which resulted in the *Financial Services Reform Act 2001* starting with the Wallis Committee of Inquiry into Australia's Financial Systems. Its involvement continued throughout the CLERP process and the evolution of the first draft exposure bill through to enactment. This involvement has included numerous Treasury and Parliamentary submissions and representation on Federal Treasury's Implementation Consultative Committee (ICC).

Stated Objectives and Principles of the Act

The Committee has within its terms of reference for this inquiry a reference to the 'stated objectives and principles of the Act'. For that purpose, IAG relies upon, *inter alia*, comments made by the Minister for Financial Services and Regulation of the 39<sup>th</sup> Parliament, Joe Hockey - specifically, his second reading speech in the Parliament. Mr. Hockey was the Minister with carriage of the legislation through the Parliament.



In his second reading speech for the *Financial Services Reform Bill 2001* in the House of Representatives on 5 April 2002, the Minister made the following comments:

*".. The Financial System Inquiry reports - also known as the Wallis report- concluded that the complex and fragmented regulatory framework was creating inefficiencies.... This bill is the vehicle that will enable financial services providers to reap the efficiencies and cost savings identified (in the report)....**The streamlined regulatory regime proposed in the bill will reduce the compliance costs associated with carrying on a financial services business (emphasis added)..**" ( Hansard , 5 April 2001)*

On 23 August of the same year, the Minister issued a press release entitled '*Landmark FSR Bill through Senate*' , in part, that release read:

*"..For industry the Bill will cut compliance costs and remove regulatory barriers.." (No. FSR/064);*

Below are several examples of business processes and requirements, identified by IAG, the effect of which runs counter to the stated objectives of the Act, as identified in the Minister's comments.

### **ASIC Policy Statement 146 - Licensing: Training of financial product advisers**

ASIC Policy Statement 146 sets out the minimum training standards for people who provide financial product advice to retail clients.

#### **Individual assessment: PS 146.52**

This section of the statement gives experienced advisors without relevant qualifications the option of meeting training standards by being individually assessed by an authorised assessor. In such circumstances, the individual assessment can recognise a person's current competency or prior learning or existing professional assessment. To be eligible for this option, advisers must have a least 5 years relevant experience over the immediate past 8 years in the areas which they advise.

#### **Regulatory/Compliance issue:**

The Australia Quality Training Framework (AQTF), quoted by ASIC throughout the policy statement, is a national government system that provides the criteria for all qualifications issued by TAFEs, universities and other approved private providers. Under **AQTF Standard 8.2**; the Recognition of Prior Learning (RPL) process that AQTF requires of Registered Training Organisations (RTO), has no stipulated time frame. Rather, the competencies of applicants will be considered '*regardless of how, when or where the learning occurred*'.

This contradiction of time frame requirements for the Recognition of Current Competencies process of PS 146 and the AQTF represents a conflict of requirements.

#### **Recommendation:**

*That the Policy Statement give consideration to the stated objectives of the Act and be amended so that ASIC's individual assessment process(PS146.53) be aligned to AQTF standards*

**PS 146.43 and Personal Accident and Sickness.**

The characteristics of the Tier 1 Educational Level, are described in the policy statement as being “..broadly equivalent to the ‘Diploma’ level under the Australian Quality Training Framework..” . The industry practice and experience is that the requirements of staff responsible for selling this product do not currently equate with ‘Diploma level’ educational levels. Currently, IAG have staff roles dealing with Accident and Sickness products who only require ‘*relevant theoretical knowledge*’ of the product for the purposes of their duties; this accords with the Certificate III level under the Australian Quality Training Framework.

The requirements of the policy statement has the effect of creating an artificial distinction of training requirements for staff dealing with Personal Accident and Sickness issues. Generally, in other financial service product areas, it is the job role and level of advice given that are the determinants of educational requirements for advisors. It is submitted that the specific exclusion of *personal sickness and accident products* from Tier 2 does not render any significant extra protection to the consumer and presents an extra compliance burden upon the financial service provider.

Further, the policy statement is not clear in relation to those staff who are trained to Tier 1 requirements for Personal Accident and Sickness and are also involved in advising on other products. Potentially, it could be the case that those staff would be required to be trained to Tier 1 levels for all the products for which they advise - not only Personal sickness and accident. If this is the case, the extra educational requirements for 95% of products (non personal sickness and accident) would be dictated by the requirements of 5% of the products ( personal accident and sickness).

**Recommendation:**

- 1. That Personal Accident and Sickness business in general insurance products be removed from Tier 1 educational levels and be included in Tier 2 with the remainder of general insurance products. Thereby allowing the staff position and level of advice to be the determinants of the educational requirements; further;*
- 2. that Tier 1 training requirements apply only to Tier 1 activities for that product.*

**Outstanding Issues relating to the provision of advice and related disclosure issues**

LAG notes that in the August 2001 report on the Financial services Reform Bill 2001, the *Parliamentary Joint Statutory Committee on Corporations and Securities* made several recommendations to the Government and its agencies on matters relating to the provision of advice and other disclosure issues. Several of these recommendations continue to await action from the Government; they include:

*∴(the) Committee recommends that the Bill should not require disclosure of the quantum of commission on risk products..”*

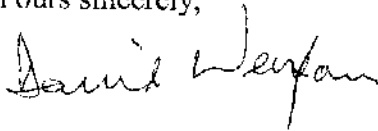
*“.. (the Committee) therefore recommends that the cooling off period should not apply to insurance renewals for which at least 14 days notice is given..”*

*“.. the Committee recommends that the Bill should exclude from disclosure requirements the provision of a quotation alone for a general insurance product..”*

While IAG accepts that many of these issues do not directly relate to the Committee's current inquiry and its Terms of Reference, it reminds the Committee that the definitional issues as to what constitutes personal advice for general insurance products remains problematic as do the disclosure issues for telephone transactions.

IAG would be happy to expand upon the issues contained in this submission at the Committee's request. All inquiries regarding this submission should be made directly to Dallas McInerney ph 02 9292 8253.

Yours sincerely,

A handwritten signature in black ink, appearing to read "David Wellfare". The signature is written in a cursive, flowing style.

David Wellfare

**Manager, Policy & Government Relations Unit (Acting)**