Aussie

MORTGAGE BROKING
HOME LOANS
CREDIT CARDS
HOME INSURANCE

31 July 2009

Dr Shona Batge
The Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

BY EMAIL TO corporations.joint@aph.gov.au

Dear Dr Batge

Inquiry into financial products and services

Aussie appreciates the opportunity to make a submission to the Committee's Inquiry into financial services and products ("Inquiry"). Aussie notes the Inquiry's broad terms of reference and limits its comments to the matters relevant to Aussie's business.

Executive Summary

1. The government should avoid the temptation to over-regulate Australia's financial services regulatory regime in response to non-compliance by a small minority of financial services providers. The benefits provided to Australia and consumers by an efficient system far outweigh the costs of non compliance by a minority which should be dealt with aggressively on a case by case basis.

2. The current substantial disclosure requirements should be streamlined so that consumers are not confused by the massive amount of detail and can more easily retrieve the relevant information when deciding to purchase or to invest in financial products. The current massive levels of disclosure lead to consumer's inability to read and understand and thus provide no additional service or security to the consumer. We believe in many cases it actually increases risk, as the consumer chooses simply to read nothing and rely on the advisor .

3. Advisers should be allowed to receive commissions from product providers or to charge fees for services to consumers provided there is clear and transparent disclosure to enable a consumer to understand the adviser's interest in the transaction. It should also be shown that the transaction is suitable and understood by the consumer

Our submission

a) Regulation of financial services and products

Australia is a world leader in the licensing and regulation of financial services and markets with the introduction of the Financial Services Reform Act (FSRA) under the Corporations Act 2001, which led to the regulation of financial products and services under one umbrella. It is noted however that whenever one or more major participants fail, such as the recent collapses of Storm Financial, Opes Prime and a few other organisations, there is a tendency for legislators to find ways to increase regulation in a bid to provide further and better protection to consumers and to avoid similar future collapses of financial services providers. We consider that such radical measures are often unnecessary as simple measures to enforce compliance with existing legislation and with market best practices are a better way to prevent fringe practices. We firmly believe that over regulating the entire industry to prevent malpractice by a small minority has the potential to destroy the benefits' of an efficient and effective industry complied with by the vast majority.

Under the Corporations Act, Australian Financial Services (AFS) licensees are required to complete mandatory initial and ongoing training in order to provide financial product advice to retail clients. When complemented with other regulatory requirements for holding the AFS Licence, properly trained advisers are in a better position to provide quality advice to their clients.

Whilst we concede that activities such as margin lending are unregulated and are currently rightfully under review, legislators need to be mindful not to impose a disproportionate regulatory burden (and costs) on market participants, which would over-complicate the existing regime and make it harder for consumers and investors to access the products and services.

b) Disclosure requirements for financial services and products

The Corporations Act contains a long list of disclosures that must be made in Prospectuses, Product Disclosure Statements and Statements of Advice. The result is that despite ASIC's constant urging to financial service providers to make disclosures to consumers clearer and more concise, documentation presented to potential investors often reaches over 100 pages in length. Retail consumers therefore do not read these disclosures, instead relying on the sale advice provided by their financial advisers. This current level of regulation and disclosure needs to be simplified not further complicated.

If consumers are to be truly made aware of the potential risks associated with an investment, the list of disclosures that must be made in the above documents must be replaced with a summary document (of no more than say, four to five pages) which sets out the following:

- features of the particular investment strategy or financial product;
- risks associated with a particular investment strategy or financial product; and
- method of remuneration received by the financial adviser (eg salary or commission or fee for service).

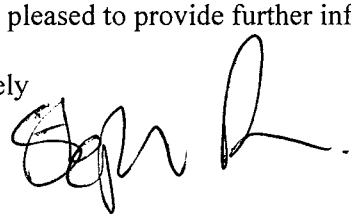
c) **Adviser remuneration**

We consider that there is a place for both commissions-based structures and fee for service models. The key is in appropriate disclosure of the remuneration received for services provided to the consumer, either as a commission payable by the product issuer or the adviser's employer, or fee for service paid by the consumer.

We submit that clear and upfront disclosure of commissions or fees for service is the best way to ensure that consumers are aware of the adviser's financial interest in the transaction or cost of the financial service the consumer is obtaining. Consequently, any benefits (from the financial or investment strategy) shown in the disclosure documents should be shown net of any costs so that consumers can clearly understand if the costs of adopting a particular financial strategy or of making a particular financial investment may exceed any benefits from the strategy or investment.

We would be pleased to provide further information on the above discussed matters.

Yours sincerely



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