

Senate Select Committee on Superannuation and Financial Services

Main Inquiry Reference (a)

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SUPERANNUATION AND FINANCIAL SERVICES

**SUBMISSION BY THE FINANCIAL PLANNING ASSOCIATION OF
 AUSTRALIA LIMITED**

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EXECUTIVE SUMMARY

The Financial Planning Association would like to thank the Senate Select Committee on Superannuation and Financial Services for the opportunity to present on the following matters pertaining to superannuation and financial services:

- (a) prudential supervision and consumer protection for superannuation, banking and financial services; and
- (b) the opportunities and constraints for Australia to become a centre for the provision of global financial services; and
- (c) enforcement of the Superannuation Guarantee Charge.

The Financial Planning Association of Australia Ltd (FPA) is the peak professional organisation for the financial planning industry in Australia. With over 12,000 members through a network of 31 Chapters across Australia, and a state office in each capital city, the FPA is the only organisation that fully represents qualified financial planners and their Principal licensed dealers. FPA members advise on and/or manage the financial affairs of over 4.9 million Australians with an investment value of \$156 billion.

OPTING OUT PROVISION AND TIMING

The 1996-97 Budget paper suggested that employees with incomes between \$450 and \$900 a month be given the opportunity to choose between Superannuation Guarantee contributions or the equivalent as wages and salary. The FPA reinforces its support for this provision. The FPA believes employees earning between \$450 and \$900 should be given the choice of providing for a retirement income or addressing pressing needs to maintain current living standards.

Currently, employers are required to pay minimum superannuation support contributions by 28 July following the income year. Superannuation funds are required to provide their statements up to six months following the income year. Therefore there are long delays before the employee is aware of non-payments from their employer.

The FPA recommends that employers be required to meet the minimum level of superannuation payment for each employee on a quarterly basis (for smaller businesses) and monthly (for larger businesses) rather than yearly. Currently, in the event that the company paying the SGC becomes insolvent, the employee would lose their superannuation entitlements for the whole year. In addition to this, an employee would potentially lose an entire year's investment earnings should the employer delay making such contributions until 28 July each year. The proposal the FPA supports would enhance each employee's ability to determine any difficulties the company has in making such payments.

The FPA submits that the Government should legislate to oblige employers to make quarterly or monthly SGC payments.

CONSUMER PROTECTION

The FPA proposed and welcomed universal standards of conduct and uniform disclosure obligations for all financial service providers dealing with retail clients. We believe the current 'merely incidental' advice provision in the Corporations Law (section 77 (5)) and the proposed Declared Professional Body exemption in the Draft Financial Services Reform Bill would deliver a lower level of consumer protection in a super choice environment.

A single licensing regime without any exemptions not only promotes competitive neutrality but allows for clear operating standards and accountabilities for conduct and consistent and comparable financial product information. In turn, this promotes a high level of informed decision-making by retail clients.

The same competency and conduct standards for financial services licensees should be strictly applied to all professional advisers who wish to provide retail financial product advice.

Allowing various professional bodies with powers to license financial service providers will only confuse consumers as to the appropriate channels to pursue for guidance, advice and redress. It will also make it more difficult for the government and the regulator to monitor the practices of the professionals that are members of the exempt professional body.

EDUCATION

There are many choices in the market place today surrounding superannuation and it seems the reality is consumers lack the education to make informed choices in these changing times. Today superannuation has a complicated connotation attached to it. Terms such as reasonable benefit limit, eligible termination payment and eligible service period are confusing to consumers. Further, the taxation laws surrounding superannuation deter some consumers from making voluntary contributions.

The FPA believes educating the general public about superannuation is two fold. At one level, the FPA recommends that the Government in conjunction with appropriate bodies work towards introducing superannuation and national savings into the school syllabus. At another level, the FPA recommends the Government should fund a body to prepare as straightforward as possible material on superannuation, which can be made available to the consumer. Further to this, the body should also be equipped to research superannuation trends such as the number of consumers making voluntary, national savings and retirement incomes and the impact of the aging

society and lower fertility rate on superannuation and government social security payments.

DISCLOSURE OF FEES, COMMISSIONS AND BONUSES

For consumers to make informed choices they require at a minimum information of costs, fees and charges, and the availability of a dispute mechanism process..

Critical to the effectiveness of disclosure and the ability of consumers to make an 'apples and apples' comparison of different funds is the development of a standardised industry-wide disclosure regime that requires disclosure of all fees, commissions and bonuses.

As such, the FPA does not support the proposition made by some in the industry and expressed in the Financial Services Reform Bill that where the commission paid does not affect the return from a product, no disclosure is required. The existence of incentive payments payable for sales of risk protection insurance and other products may be important information for a consumer to understand the motivations and behaviour of advisers or sales persons promoting financial products in so-called non advice situations.

The likely impact of commissions on the return on a product is only one reason for disclosure in the product disclosure statement. Conflict of interest and potential bias are still important powerful factors that should be made transparent.

The existence of this type of disclosure may be beneficial to consumers to help them understand the existence of any pressured selling techniques which may be applied in non-advice situations by sales persons driven by undisclosed incentives promoting financial products one-on-one.

FPA supports the disclosure in dollar amounts where practicable and where this is not possible, percentage amounts or a written description must be provided. Benefits to be disclosed must include all commissions, soft dollar incentives, sales quotas, volume bonuses etc.

In conclusion, the FPA is committed to the universal disclosure of commissions and benefits for all financial products including investments, life, super, risk, borrowings and real property.

For example, our Practice Guideline on Disclosure of Fees, Commissions and Benefits does not discriminate between different types of fees and benefits. Further, FPA's Code of Ethics Rule 106 does not differentiate or define commission into components, therefore it does not allow for sections of commissions to be excluded from being disclosed.