

FOREWORD

“The Inquiry gives us an opportunity to reflect on recent developments and the overall structure of Australia’s financial system and to decide how best to meet the challenges facing the industry.

I see three important issues for the Committee.

First, to establish a domestic operating environment that supports rather than hinders institutions such as AMP as they expand their activities in the global market place to become players of real significance.

Second, the urgent need to raise Australia’s savings level is one we all recognise as a national priority. Achieving an increase in private savings will not only assist in raising living standards for all Australians, but also promote the nation’s economic growth. For this to happen, the taxation treatment of savings needs to be addressed.

Finally, technology already has had an impact on our industry and will continue to do so. If properly harnessed, technology will benefit all stakeholders as improvements in service, costs and product innovation result from the competitive environment. For this to occur, we must thoroughly examine Australia’s regulatory structure to establish the appropriate framework for the new electronic age.

AMP’s submission recommends changes to current regulations to remedy shortcomings in the current system. We see merit in fewer regulators, resulting from the creation of a Financial Institutions Commission and a Retail Financial Services Commission; a simplified legislative framework for consumer protection; and the removal of the arbitrary prohibition on mergers between the top six financial institutions. We see these changes as a natural development of the current framework.

We look forward to working with the Committee and participating in the development of a regulatory framework for financial services that will serve the best interests of customers and institutions.”

George Trumbull
Managing Director and
Chief Executive Officer

CONTACTS

This submission has been prepared by the Australian Mutual Provident Society for the Financial System Inquiry, announced by the Treasurer, Mr Peter Costello, and chaired by Mr Stan Wallis.

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EXECUTIVE SUMMARY

Section 1

Effective regulation and competition in the financial market are key ingredients in giving confidence to consumers, and contributing to Australia's future growth. This Inquiry provides the opportunity to reshape Australia's regulatory system and competition framework so that they reflect the substantial changes that have occurred in the financial system since deregulation. Key objectives underpinning AMP's recommendations are: achieving consumer confidence in the financial system, ensuring stability and efficiency, and improving competition in the financial sector. Three research studies have been commissioned by AMP to provide technical support to its submission, covering the issues of technology, regulatory arbitrage, and the nature of competition in the financial market.

Section 2

Many factors have driven change in the financial system: deregulation, globalisation of capital markets, technological advances, disintermediation, consumerism and securitisation. Customers today are more sophisticated and demand new services. Financial institutions have diversified away from their traditional base, leading to a blurring of distinctions between products and institutions. Technology is creating new channels for distributing products, and enabling new competitors to enter the Australian financial market. Competition in the financial market has intensified.

Section 3

Australia's financial system is dominated by conglomerates, and their complexity poses potential problems for regulators. AMP considers that a single prudential regulator, possibly called the Financial Institutions Commission, would be the optimal approach to properly supervising financial institutions, including financial holding companies. A single regulator approach would remove the arbitrage in prudential rules that is adversely affecting competitiveness and would bring non-bank and bank intermediaries under the one regulator. AMP sees merit in establishing the single regulator separate from the Reserve Bank, as its responsibilities would be broader than the banking system. The Reserve Bank still needs to manage monetary policy and closely monitor the financial system for systemic risk.

Current regulations for consumer protection vary according to the type of product and institution, with different systems existing for financial advice, product disclosure, and disputes resolution. This is creating duplication, confusion and complexity, and ultimately high cost for customers and institutions. There is also a common misconception that life insurance subsidiaries of banks carry the prudential support of the bank. This is influencing customers' choice of product, and in that way introducing a market bias that is undermining effective competition.

AMP recommends that all consumer protection regulation be consolidated in one legislative framework administered by one regulatory authority, possibly called the Retail Financial Services Commission. This legislation should govern the conduct of business, including more effective and consistent disclosure rules, and a new single complaints tribunal system. This Commission and the Financial Institutions Commission could work closely together under the auspices of an Australian Supervision Council.

Section 4

Competition has intensified in Australia's financial markets as a result of deregulation, globalisation and advances in technology. These forces have reduced barriers to the Australian market and introduced new global competitors. Existing competition policy is restricting the efficiencies that Australian institutions may well need to compete effectively against global and new low-cost specialist competitors. It should be removed. The competition tests of the Trade Practices Act should have more explicit guidelines on market and product substitution. A broader definition of geographical market may be warranted given new national distribution that has been enabled by technology.

Section 5

The Inquiry provides an opportunity to improve Australia's regulatory and competition policy framework. AMP's proposals would build on the strengths of the current system. The changes would enable optimum prudential supervision of financial institutions by introducing a single prudential regulator; would strengthen the protection of customer interests through a single consumer regulator; and would introduce less arbitrary prohibition on mergers through removing the "six pillars" policy. The proposals address problems in the current framework, and in that way would bring benefits to consumers and institutions, and ultimately lead to a more efficient and competitive financial system.

KEY RECOMMENDATIONS

- That a **Retail Financial Services Commission** be established, consolidating all consumer protection regulation in the financial sector
 - responsibilities would include product disclosure, financial advice and complaints handling.
- That a **Simplification Task Force** be established to start the process of shaping the new consumer protection rules.
- That a new **Financial Institutions Commission** be established incorporating the prudential responsibilities of the RBA, AFIC, ISC and the ASC.
- That an **Australian Supervision Council** be established to harmonise the activities of the two Commissions and to ensure close links with the Reserve Bank.
- That the “six pillars policy” be removed, and that tests under Section 50 of the Trade Practices Act, with more explicit guidelines on market and product substitution rulings, be used to assess competitive issues in financial sector mergers.
- That adequate resources are allocated to ensure Australian regulators work with regulators internationally towards establishing global standards for electronic commerce.