9 September 1996

The Secretary
Financial System Inquiry
Treasury Building
Parkes Place
PARKES ACT 2600

Dear Sir/Madam

Please find enclosed the joint submission by the Australian Lifewriters Association and the National Council of Life Agents Association to the Wallis Inquiry.

We believe this to be the most important Inquiry into the Financial Services Industry in recent years, and wish to offer our full support and assistance in any way we can.

Our National Office is in Deakin ACT, and any enquiries can be addressed by phone or fax through Mr Don McChesney, General Manager, for immediate reference and clarification on specific issues to the pertinent area.

Yours sincerely

John Craik
NATIONAL PRESIDENT

JOINT SUBMISSION

TO

THE FINANCIAL SYSTEM INQUIRY

BY

AUSTRALIAN LIFEWRITERS ASSOCIATION

&

NATIONAL COUNCIL OF LIFE AGENTS ASSOCIATION

AUSTRALIAN LIFEWRITERS ASSOCIATION

This organisation is an Australia wide professional body which, for over 50 years, has represented professional Life Insurance Advisers who are involved in advice on, and distribution of, Insurance, Investment and Superannuation products to the public. At present the Association has approximately 2000 members. The Association has been engaged in representing members' views on all matters, including industry standards, ethics, education and Government, the Life insurance and funds management industry, and the consumer.

NATIONAL COUNCIL OF LIFE AGENTS ASSOCIATION

This organisation is a peak body representing all members of Life Insurance Agents' Associations Australia wide. Its function is to put forward to Government, the industry and the public, the collective view of its members. The combined membership of the constituent bodies of this National Association is over 4500 agents.

The above member-driven organisations are representative of over 6500 advisers, which is 85% of all who give advice on Insurance and Superannuation, and over 35% of those who give Investment advice.

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1 Executive Summary

1.1 Providing Advice suitable to Customers

- Regulation of the financial services industry should be consumer oriented. This is best served by, firstly,enhancing marketplace competition and secondly, enhancing the quality of advice given to consumers. As well it is important that a regulatory framework exist which controls the 'rogue' element in the industry to further promote industry stability and customer confidence.

- The current regulatory framework is unwieldy from a business perspective, and confusing and inefficient from a customer perspective. Simplification would benefit both the industry and the consumer. A self-regulatory body should be introduced which requires advisers to be educated and competent. Legislative backing should be provided to enable 'rogue' individuals to be barred from providing advice.

- New legal and regulatory arrangements need to be such that they encourage efficiency and productivity within the small businesses which provide the majority of financial service advice. Legal requirements should focus on providing a fairer arrangement between life offices and agencies, which in turn will lead to long-term business survival, and greater responsibility and service provision to the customer.

1.2 Disclosure on Managed Investments

- The ALA and the NCLAA firmly believe that disclosure is a necessity in the financial services industry. Provision of relevant and verifiable information allows the consumer to make an 'informed buying decision. However, the emphasis in disclosure should be on the provision of clear, concise information, which is not misleading and which is presented in a form accessible to the average person as consumer.

- However, the current requirements relating to disclosure generate waste and are too unwieldy and confusing for all concerned. Anomalies exist in the disclosure requirements for different but fundamentally related investment items, for example, Unit Trusts compared with Insurance Bonds. Uniformity must be an aim of any new regulatory system. New regulations relating to disclosure should arise as the result of an open and joint effort between all stakeholders and not be driven by bureaucratic processes.

1.3 Savings

- Savings should be of prime concern to the government and people of Australia. A society should be fostered in which attitudes to saving are positive and in which those who do save receive incentives for their efforts. Emphasis should be placed on self -provision for retirement, and superannuation should be viewed as a means of providing income, rather than 'lump-sum' payouts, on retirement.

- Individuals will have a more positive attitude towards saving if two changes in particular are made. Firstly, a mix of saving methods must be available to meet the different requirements of our population as a whole. Secondly, a stable, long-term approach towards government regulation of savings, with the rules being fixed, is necessary to foster consumer confidence in long-term savings products. This is particularly relevant to the superannuation industry.

The ALA and the NCLAA have made key recommendations based on the above issues. A summary of these recommendations follows in the next section.

Key Recommendations

The Australian Lifewriters Association and the National Council of Life Agents Association submission includes the following recommendations:

One Registration Scheme

- There should be one Registration Scheme for all those who give advice in the Financial Services Industry, in the three divisions of life insurance, superannuation and investment as a self-regulating organisation.

Information Paper

- The Information Paper on the Proposed Registration Scheme for life insurance advisers should be used as the base for a Registration Board for financial services advisers, by widening the Registration Scheme to include all those who give advice in the Financial Services Industry.

Encourage Greater Productivity

- The Government must encourage greater productivity by providing the most suitable legal relationship between the adviser, the distributor and the manufacturer.

Agents and Brokers Act

- The Agents and Brokers Act should be abolished and replaced by a new Financial Services Act which sets out the relationship between the financial services adviser, the manufacturer and distributor. This Act should lay down an even-handedness in the contract between the adviser, the manufacturer and the distributor.

Customer Information Brochures

- The Government should request stakeholders to report on the provisions of Customer Information Brochures with the object of substantially reducing the cost and the misuse of unnecessary resources.

Disclosure Requirements

- The Government should request stakeholders to report on the need to coordinate disclosure requirements as it is required in the various documents.

Disclosure Material

- The Government should request stakeholders to report on methods of assessing the views of the Industry on the content of disclosure material required by the Government.

Customer Information Brochures

- The Government should request stakeholders to report on how Customer Information Brochures can be made reliable in providing information accurate enough for comparisons with other investments.

- Tthe Government should ask stakeholders to report on how Customer Information Brochures, and other material required by regulation, can be used to enhance business activity and opportunity.

Savings

- That the Australian Government becomes actively involved in the promotion of savings as a national project.

- That the Australian Government actively encourages regular conferences between manufacturers of financial savings products and consumers.

- The Australian Government should give incentives and promotion to all savings in Australia.

- The Australian Government should act as quickly as possible to set a level of savings of a positive 2% in its own operational budget.

- The Australian Government should confer with the superannuation Industry to settle as soon as possible the terms of compulsory superannuation contributions.

- That suitable people examine the 10 Year Rule so far as life insurance is concerned and make recommendations to the Australian Government.

- That Procedures be adopted for Governments to make changes to any savings concession in Australia.

PROVIDING ADVICE SUITABLE TO CUSTOMERS

2 Introduction

2.1 The Australian Lifewriters Association (ALA) and the National Council of Life Agents Association (NCLAA) have been the major bodies for the representative professional life insurance adviser in Australia for the last 50 years. The ALA was formed for the specific purpose of promoting licensing or registry of those who give advice in the life industry. Four times, the last time being six months ago, it has nearly achieved that goal. The Association and its members remain passionately welded to the concept, for it is the only way to achieve fairness and natural justice in regulation of advice.

2.1.2 The combined Associations represent over 5000 members out of a total life advice giving force. Four years ago there were 20,000 agents in Australia. In Malaysia where there is the same population as Australia, there are, because of the attitude of the Government towards the life insurance industry, 60,000 agent/advisers.

2.1.3 The Associations believe that the consumer should receive the appropriate advice to facilitate decision making. All regulation must therefore be consumer orientated. Regulation must never, in any way, reduce competition in the market place. (For the present situation please see Financial Service Industry Competition Model, Attachment A, Competitive Model). The proposals as discussed in this paper will result in increased competition. As suggested by Hammell & Prahald:

"Competition is to be a prescient about the size and shape of tomorrow's opportunities...this competition to conceive fundamentally new type of customer benefits, or conceive radically new ways of delivering existing customer benefits".

2.2 What does the Life Agent/Adviser do?

2.2.1 The basic job of an agent/adviser is to obtain from the client relevant information, then analyse the risks and provide a solution. On a more emotional level, the adviser discusses the dreams and goals of the client, then puts these goals in to logical order and provides suitable solutions to the dreams. The basic concept used is "human life value". This is best defined as:

"The human life value is based on the fact that every person who earns more than is necessary for self-maintenance has a monetary value to those who are dependent upon that person. Thus, it may be defined as the capitalised value of that part of the earning of the individual devoted to the support of family dependents, business associates, and others who benefit from the person's economic earning capacity".

This concept as a philosophical framework for the analysis of basic economic risk faced by individuals was proposed by Dr S S Huebner, late Emeritus Professor of Insurance, University of Pennsylvania, USA in 1924.

2.2.2 The process of the client/adviser relationship has been re-defined by the ISC's Code of Practice and the ASC's "Know your Client". This has produced a necessary cultural and intellectual shift (in the regulatory process of advice), from individual product advice to individual client advice especially by the requirements of Section 28 of the Code of Practice. (Attachment B).

2.2.3 The <u>practical</u> process of the now established regulatory client/adviser relationship is best illustrated by a diagram 'Hurdles to the Sale' which shows the process now required from the Initial Contact to Policy Issue. (Attachment C).

2.2.4 We represent the Small Business arm of the Financial Services Industry (advice and sales) and therefore incur costs appropriate to small business. Commissions earned can be likened to turnover, and are subject to small business costs as evidenced in the Chant Link report.

2.3 Study on Advice Service and Related Expertise

2.3.1 Coopers & Lybrand, a respected independent accounting firm, was recently commissioned by Prudential Corporation Australia, to value the services provided by a sample group of experienced advisers to their clients. They found that the average portion of time spent on each type of service is as follows: Transaction Processing 42.46%, Decision Management 31.33%, Policy and Planning 16.09% and Compliance 10.12%.

2.3.2 Coopers & Lybrand report that in the market place the average fee or cost of Transaction Processing is about $38.00 per hour; for Decision Management about $124.00 per hour; for Policy and Planning about $180.00 per hour; and for Compliance about $70.00 per hour.

2.3.3 The Study says,

"As each of these functions has a different market value, it was determined that the average weighted hourly value of services provided by advisers varied from a low of $80.00 to a high of $177.00. Based on the information obtained in this study, Coopers & Lybrand concluded that, overall, the sampled clients received value for money in terms of the services performed and time taken by life insurance advisers to perform those services..."

2.3.4 Coopers & Lybrand gives this advice to clients and potential customers:

- *Life Insurance Advisers are paid for their time and expertise by way of commission and fees. Using this study as evidence, these advisers are remunerated in a manner that represents value to the client.*

- *Having found the right adviser, you will get better value for money the longer you maintain the services of that adviser (rather than swapping to another).*

- *You, the client, can help to determine the level of service you receive. Certainly, you should have your personal situation reviewed yearly.*

- *You are not simply developing a commercial relationship when you appoint your adviser. You need to feel comfortable that this person will provide the support you need at the best and worst of times.*

2.3.5 The individual customer is best served by a well educated professional agent/adviser, who can provide, after the initial interviews, ongoing service to maintain and improve the benefits being provided. In Australia, as in all the western economy countries, there is a truly professional core group of agents/advisers, linked to an International Association called the Million Dollar Round Table, where best ideas and best practice are always being discussed.

2.3.6 The agent/adviser in Australia has been let down by a few rogue agents/advisers (much less than 1%) who have taken advantage of poor legislation.

"Whilst there have been some good reforms, in 1992 the Trade Practices Commission issued a report in relation to cleaning up the Life Insurance Industry, particularly relating to selling practices. It is a sad commentary that after three and a half years of protracted negotiation with the Government and bureaucracy we still have no effective means of dealing with a rogue adviser". (Quote J Craik 1996).

These laws are poor because:

- They do not allow responsibility for advice to rest squarely on the individual giving that advice. The person giving advice must be responsible and accountable for that advice.

- Those who administer the law, the life offices and the dealer principals, on behalf of the regulators, would appear to benefit financially from rogue agents.

- The law does not allow the agent/adviser to conduct his/her business in a way to achieve greatest productivity or to be paid in the way which best suits the way the particular business is managed.

- Not withstanding the good work, we still find it disappointing that an adviser in today's climate can be terminated by one Life Office for non-compliance or criminal activity, and subsequently be hired by another Life Office or Dealer Principal Organisation. We would suggest that the Inquiry looks at invoking a Code of Practice for Life Offices, Brokers and Dealer Principals.

- Consideration needs to be given for a Recruiting Code of Practice by Life Offices, Dealer Principals and Brokers.

2.4 An Expanded Financial Services Industry

2.4.1 Modern information technology has allowed a great expansion in the Financial Services Industry (in the last 20 to 30 years).

2.4.2 The traditional life insurance product (cover and savings) and Term Insurance (cover only) have expanded into a multitude of new products.

2.4.3 In addition, the Superannuation Industry has grown enormously, especially as a result of Government legislation on the Superannuation Guarantee Charge.

2.4.4 The Managed Funds section of the Industry has also experienced phenomenal growth in recent times.

2.4.5 All this has increased the need for knowledge and skill of advisers. Poor or misinformed advice leads to poor performance and loss of capital. This has led, with justification, to massive consumer intervention in the Industry.

1.4.6 The role of an adviser in the Financial Services industry is the same, regardless of the title under which he/she conducts business or the legislative framework by which he/she is bound. Similarly, the competencies required are not determined by title or legislative delineation.

2.5 Legislation Lag

2.5.1 In 1996 we have a very complicated mix of responsibility for giving advice in the Financial Services Industry. This is best illustrated by a diagram (Attachment D). Its simplification is essential, and there is an urgent need for the one regulator to handle the responsibility for advice given. (Attachment E & F).

2.6 The Need for a Registration Scheme

Recommendation

> ***That there should be one Registration Scheme (Self Regulatory Organisation) for all those who give advice in the Financial Services Industry, in the three divisions of life insurance, superannuation, superannuation, and investment as a self-regulation organisation.***

2.6.1 Advice in the Financial Services Industry can be divided in to three overlapping areas; life insurance products, superannuation and investment. The proposed Registration Scheme for the Financial Services Industry needs to cover all three areas. This will mean law reform.

2.6.2 The present regulatory system for advice in the Financial Services Industry is cumbersome, expensive, inefficient and is not beneficial to the consumer. The present laws are based upon artificial divisions, that of agent and broker, that of life insurance and 'financial planning', in superannuation (depending on where the money is going to be invested), and managed investment.

2.6.3 Further, the present system is not satisfactory in that it does not recognise the <u>responsibility for advice</u> of the person who gives that advice. The responsibility for advice should not rest with a manufacturer of a managed product, or with a distributor/manager. It should rest squarely with the adviser, the person who knows the actual advice being provided. Responsibility and accountability will bring greater integrity. Currently we have the analogy of the Pharmaceutical Company trying to control the Doctor giving advice and the product to the patient.

2.6.4 The current systems have led to a regime of dual regulation which is unsatisfactory. The system is unnecessarily complicated. Those holding a life agency need to adhere to the ISC's Code of Practice and those who advise on managed investments need to hold the ASC Proper Authority. Those who give advice on superannuation will come under one system or the other, or both, depending entirely where the money is to be invested; a decision made well after advice is given. Over 65% of life agents hold a Proper Authority, and all those with a Proper Authority would have expected to be registered to give advice on life office products because they will come across life policies in providing advice to customers. In addition, there are different levels of Professional Indemnity cover which are further complicated as to the source of such insurance cover.

2.6.5 This dual regulation is a waste of consumer money. It is unintelligible to the consumer, is confusing, and does not work properly in the marketplace.

2.6.6 There is an urgent need for regulation of all those who give advice, not regulation of those who are a Broker Representative, a life agent or hold a Proper Authority. There are many people out there giving vital financial advice who are not controlled under this regime, for instance, accountants, solicitors, bank managers and real estate representatives.

2.6.7 Dual Regulation and its complications caused by poor legislation has created a situation where the regulators, in trying to make the system work by "harmonisation", are making it harder and harder for the adviser to comply. The solution is to amend the legislation.

2.6.8 Individual registration means you cannot legally give advice unless you are registered. This is the most effective way of barring somebody from giving advice.

2.6.9 An Industry Registration Scheme will provide a core Industry standard of education. A core standard of education is obviously required in the medical profession or in the law profession, and it is to such a level that advisers in the Financial Services Industry need to aspire.

2.6.10 An independent registration system will provide natural justice to the individual adviser, ensuring that, should an adviser change their relationship with the life company, or fund manager as the manufacturer, or the life company or principal dealer or trustee as the distributor, natural justice will prevail and the registered person's right to practice will remain the same for all those who are registered.

2.7. Registration Scheme

2.7.1 The type of Registration Board and how it is set up is all important.

- *There should be one practitioner regulatory body, a self regulation Registration Scheme, which registers all those who give advice in the Financial Services Industry; that is, advice on life insurance, on superannuation, and on investment, or a combination or subset of these three.*

- *This Scheme would be named the Financial Services Industry Registration Board and have representatives of all stakeholders in the industry as Board Directors.*

- *Registration would be on an annual fee basis, with minimum competency to be reached before registration is granted. Continuing Education requirements would also need to be fulfilled before renewal is granted.*

- *The new Board will need legislative and/or indemnity backing to provide the power to 'bar' certain people from giving advice and to provide penalties to those who break the law or operate while unregistered. The legislation will also be required to protect the Directors of the Registration Scheme in their decision making. (ALA Policy Statement).*

The cost of running such a self regulated and self funded Registration Board is the major objection of opponents of the idea.

Last year the Interim Registration Board commissioned Ernst & Young to report on the setting up of a "Life Insurance Advisers Registration Board", which they did in July 1995. (Attachment G). Based on an annual Registration of 5000 - the annual cost per person registered was estimated at $320.00 annually. We do not believe that this is excessive for what it achieves, and if such Registration were extended to all those giving advice in the Financial Services Industry, we believe that the annual cost would drop considerably lower than $320.00 because of the economic of scale of greater member numbers.

Compare this with the current ASC licensing scheme, where the ASC maintains the individual register (as well as the dealer register). The cost of running two registers would undoubtedly be higher than one; such cost currently borne by Government, not the Industry.

Recommendation

The Information Paper on the proposed Registration Scheme for life insurance advisers should be used as the base for a Registration Board for financial services advisers, by widening the Registration Scheme to include all those who give advice in the Financial Services Industry.

2.7.2 During 1995 an Interim Registration Board, made up of all stakeholders in the Industry was set up by the Federal Minister responsible, the Honourable Paul Elliott. The way the Board was to operate was set out in the report issued in December 1995 titled "Information Paper on Proposed Registration Scheme for Life Assurance Advisers". (Attachment H).

2.7.3 In the Introduction, the Report says, in part:

"The Parliamentary Secretary was responding not only to consumer demand for increased level professionalism and accountability in respect of advisers but also to industry requests for a system of creditation for advisers. The Industry argued the certification would ensure that all advisers met specific competency standards and would assist in ensuring that the small minority of incompetent or unethical advisers would be excluded from the Industry..."

The Australian Lifewriters Association has not deviated from our support of this objective. We applaud the objective.

2.7.4 The Board set up several subcommittees, including one to determine competencies within the Industry, and another setting out a Core Curriculum. These committees have accomplished detailed and solid work in this area, it being the first time that the competencies of life assurance advisers were set down in a professional manner. These committees still have the task of setting up a course work book and also setting out how testing for competencies is to be accomplished.

2.8 Encourage Greater Productivity

Recommendation

The Government must encourage greater productivity by providing the most suitable legal relationship between the adviser, the distributor and the manufacturer.

2.8.1 The present Agents and Brokers Act is simply not suitable to the continuation of a small business entity, which describes the vast majority of established agencies and established brokers.

2.8.2 Trading structures of adviser businesses are governed by the Agents and Brokers Act. The basis of the Act "That agents are primarily responsible to their life company and brokers are responsible to his/her client", is not now practicable in the marketplace. In addition, the Agents and Brokers Act has conditions in it which do not allow the agent, the adviser, to choose his method of remuneration. The following tells the story of one life company's view on this matter.

2.8.3 *"Under the Agents and Brokers Act, an insurance agent is at all time the agent of the insurer, and not of the insured, with respect to the sale of life insurance products. It follows that any fees charged must be charged in the name of the insurer, in NMLA. Furthermore, Section 37 of the Act states that monies paid to an agent in relation to the insurance contract are subject to a trust in favour of the insurer and must be remitted to the insurer. This effectively rules out the direct charging of fees by life agents (although it would not preclude NMLA putting in place a fee for service structure in the future).*

- *An agent who seeks a fee from the insured is probably acting as an unregistered broker, and may therefore be in contravention of Section 19 of the Insurance (Agents and Brokers) Act. The penalty for breach of the section is imprisonment for two years.*

- *The only services for which an agent of NM may charge a fee for service which is not remitted as part of the premium to NM would be services unrelated to arranging contracts of life insurance. In providing such services, the agent must clearly indicate that he is not acting as an agent of NM and must not use a NM letterhead.*

- *The agent should be aware that if the service amounts to the provision of financial advice, he or she must be a licensed securities dealer or an authorised representative of a licensed securities dealer in terms of the Corporation Law". (NMLA instructions).*

2.8.4 Currently advisers in the Financial Services Industry are paid in different ways. Some are paid salaries, some are paid commission, some charge fees, and some receive a combination of some, or all of these. Some are financially independent of the distributor and are true small businesses, and some are salaried employees of the distributing organisation. It should be remembered that with a commission base for remuneration, an agent/adviser takes the commercial risk, whilst with an adviser working on fees, the customer takes that commercial risk. As well, the agent/adviser has a unique payment system in that a responsibility period exists for all life insurance products except single premiums, in that, if the policy is terminated within the "responsibility period", all or part of the commission is claimed back by the life company.

2.8.5 However, when a life agent/adviser is paid, as with all small business people, the remuneration is used first to pay business expenses such as wages, office rent, telephone, postage, motor vehicle expenses, before his/her salary is paid.

Recommendation

The Agents and Brokers Act be abolished and replaced by a new Financial Services Act which sets out the relationship between the financial services adviser and the manufacturer and distributor. This act should lay down an even-handedness in the contract between the adviser, the manufacturer and the distributor.

2.8.6 Under the Agents and Brokers Act, the agency agreement is the basis of the legal relationship between the life office and its agents, and therefore the contract needs to be a permanent arrangement, even-handed in its legality and fair in any class or individual modification. There are many cases where for some reason or other, an agent is not able to continue with contracted arrangements. In such circumstances, there should never be a confiscation of the agency, as the property of the agent, by the life company or any other entity. A contract should always remain binding so that the agency should always have a value. (ALA policy statement).

2.8.7 To many people within the Industry, and to the regulators themselves, the answer to this dilemma is to become broker. In the middle there are multi agents who have agencies with a number of companies and where the cancellation of agencies because of low production (never bad service!) occur. This has created in Australia, a situation where the life broker as distinct from a general insurance broker, has reached his position, not because he wants to be there, but because they perceive it as the best compromise under the present legislation. In many cases, one of the essential activities of a broker, to 'broke the market', that is to find the best policy for that customer through regular research into what suitable products are available in the marketplace, does not occur.

2.8.8 Association policy spells out how we see the new Financial Services Act operating.

- *The individual relationship between the life insurance adviser and the manufacturer of life insurance products should be developed from the current principal/agency contract to a business contract allowing creative market forces to operate freely, and to allow the life insurance adviser to operate his business without outside interference.*

- *All such contracts should have standard clauses which will protect the right of the life insurance adviser to all future remuneration as set out in the individual contract.*

- *All customer records in the life insurance adviser's office should be the property, subject to privacy legislation, of that adviser, and not of any manufacturer or distributor, who should have their own records.*

- *There should be no impediments to the sale of a life insurance adviser's business, including records, providing the sale is to a Registered person who holds or can hold a contract with the appropriate manufacturer(s). The manufacturer shall deal with the purchaser as if the purchaser is the original life insurance adviser. If for any reason the life insurance adviser loses his registration then he/she should have the right of natural justice in the disposal of his/her business. (ALA Policy Statement).*

2.8.9 These arrangements not only ensure continued service to the customer; but guarantee that such service will be backed up by the records of the adviser, thus providing consolidation for good advice.

2.9 The Continuation of Good Advice - Succession Planning

2.9.1 In addition to the need to consolidate and use the records of the adviser, there is the aspect of what happens to the business when the principal retires, dies or loses his/her agency. These areas are covered by what is known as succession planning and over the years, the Australian Lifewriters Association and the National Council of Life Agents Association have been able to slowly convince life companies that, not only does the life company benefit from saleable agency, but also in ensuring such saleability, life companies have been able to provide customers with continuing service. This progress in the Financial Services industry is much more pronounced in the life side than in the investment side.

Thus, the proposed new Act should take into consideration the legal aspects for promoting the growth of the provision of continuing advice in the Financial Services Industry.

2.10 Conclusion

2.10.1 The Government now has a real opportunity to create the right climate for much greater productivity in the Financial Services Industry, at no cost to the Government. By providing Advisers in the Financial Services Industry with the professional status they have sought for many years, the Government can create what it requires in regulation without using a 'big stick' or "black letter law", or without making others responsible for the action of advisers.

3 Introduction

3.1 The Australian Lifewriters Association believes the consumer investing in managed products should receive detailed, accurate information on that investment. The information provided should be uniform across the Financial Services Industry so that comparisons of the various investments or savings products available can be made. The information should also be in such a form, that a reasonable comparison can be made between investment alternatives, eg. managed v's direct investment.

3.1.2 This submission will deal with life office products, a major section of the managed investment area in Australia. It is necessarily detailed as we need to prove that the current disclosure rules are unnecessarily prescriptive and have therefore affected performance in the industry. The way in which the disclosure rules are created and regulated is of concern.

3.1.3 The Association wants to address and resolve commercial and consumer inequities, lack of access to correct and useful information, the inability to compare differing investment products, whether managed or direct, and to attain a level playing field for *all* disclosure in the Financial Services Industry.

3.2 Disclosure

3.2.1 Disclosure can be defined as government regulations set out as a minimum standard for the disclosure of information (usually relating to cost, charges, expected return and type) relative to a consumer making in an informed decision on life office products and services. Detailed product information is also provided for individual advisers at seminars, training sessions, on computer programs and in hard copy. Advisers need to pass competency testing to advise on individual products. It is always essential that the customer receives enough information to make an “informed buying decision”, whether provided by regulation or not.

3.3 Informed Buying Decision

3.3.1 *An Informed Buying Decision can be defined as having enough correct, unbiased information to enable an informed purchase decision regarding suitability to that buyer's needs.*

3.3.2 Enough unbiased information to enable an informed decision regarding suitability for that buyer's needs will generally be defined as:

"having enough correct, unbiased information regarding the design, manufacture, performance, features, options, benefits, servicing, costs, regulatory requirements, and internal/external influences (such as tax responsibilities) on that product to be able to make a decision regarding suitability and usage within a given time frame for that buyer's needs".

3.3.3 In particular, the area of *long term financial products* mainly marketed by life insurance companies has been the subject of a prolonged on-going debate, which is not resolved.

3.4 Brief Resume of Current Position

3.4.1 From early 1994 all life offices are required to produce Customer Information Brochures (and other related material and documents as described later) with one application form fixed inside, for example see Attachment . This CIB is required to be handed to the customer at the selling interview, and the adviser must use the original application form - photocopies of applications forms cannot be used. Previous to that date, brochures were available, but their use was not compulsory.

3.4.2 This type of document is now common in the western economies and is born out of the technology growth especially in the use of "policy illustrations" created as sales tools for advisers; and from the availability of what are known as unbundled contracts, modern complex life contracts with a number of variables allowing the contract to be tailored to suit the needs of the individual purchaser.

3.4.3 These Brochures all have a defined life span (usually one year life) and the enclosed application form is not current after the expiry date. Thereafter new CIBs, (even though there may be no change to the wording or product) need to be supplied. It is estimated that the cost of each CIB averages somewhere between $5 and $10 each or an estimated $60m a year for the industry. Because there is no overlap in dating allowed, excess CIBs need to be printed and any supplies on hand after the expiry date are destroyed. This system creates a great waste of resources. It is interesting that in United Kingdom CIBs are now being produced as required on adviser's computers printed from manufacturer supplied software.

Recommendation

> ***The Government should request stakeholders to report on the provisions of Customer Information Brochures with the object of substantially reducing the cost and the misuse of unnecessary resources.***

3.4.4 Regulation for the Government is carried out by the ISC through the issue of Circulars, the current operational circular being Circular G11, a sixty page detailed document..

3.5 A Serious, Prolonged and Unresolved Debate

3.5.1 Because of the nature of the regulations and because these regulations are *not* accepted in the Financial Services Industry as fair or impartial, and because they are often regarded by some sections of the Industry as biased, misleading and prescriptive, there has been a continuous serious debate over:

- The heaviness of the regulators' hand
- The manner of presentation
- Factual correctness and misleading information
- The portrayal of advisers
- The excessive negativity in relation to savings in Australia
- The creation of incorrect, unrealistic and misleading expectations, especially low expectations, to potential customers

3.5.2 This Association believes that over regulation also produces phenomenal amounts of paper, procedures, and additional costs which are ultimately passed on to the consumer.

3.6 Documents to which Disclosure Applies

3.6.1 Disclosure needs to be adhered to, not only in Customer Information Brochures, but in a number of other related documents. Because of the complexity of the regulations, and because different information needs to be provided at certain stages of the discussions with the customer, detail, especially in calculated money terms, may not be the same, and this can create doubt in the mind of the consumer as to its authenticity.

Recommendation 2

That the Government should request stakeholders to report on the need to co-ordinate disclosure requirements as it is required in the various documents.

3.6.2 Disclosure information is required:

- In the Customer Information Brochure (CIB).
- In the Key Feature Statement (KFS) of the CIB.
- In the computer illustration from company software.
- In the Policy Information Statement (PIS) which is attached to the policy document.
- on the Annual Policy Statement.

3.7 Review of Position in 1995-6

3.7.1 In 1995 in response to complaints from amongst others, the Australian Lifewriters Association, the Government commissioned an independent report on a number of aspects of the regulations brought in 1994. This report is known as the Chant Link Report. After this survey and report had been finalised, further consultative processes took place and the outcome was the ISC Circular G I1, a 60 page report on how life office products should be presented to the consumer. This came into effect on the 31 March 1996. This Association remains very unhappy with this Circular. In the letter which accompanied the Circular, the ISC stated there would be a review of the regulations in 1997.

3.8 The Decision Making Process is Faulty

Recommendation 3

The Government should request stakeholders to report on methods of assessing the views of the Industry on the content of disclosure material required by the Government.

3.8.1 This Association remains critical of the way in which reviews of the regulations have been made by the ISC. We believe that

"...the alteration of current Disclosure requirements for life insurance office products should be an open and public arrangement in consultation with the Industry stakeholders, it should not be the sole

function of bureaucrats. Any proposed changes to the Disclosure regime should be publicly discussed with manufacturers, distributors and consumer representatives before being put into effect". (ALA policy)

At present the bureaucrats ask for submissions from the industry on proposed changes, hold face to face meetings with stakeholders, and then issue the circulars in the way they, and they alone, decide.

3.8.2 Further, many of the major findings and recommendations of the Chant Link Report were not accepted by the Government through the ISC. There was no reason given for this, except the explanation that as stakeholder consensus was not reached, no major changes *could* be made by the regulators.

3.9 Some Comments on Customer Information Brochures

Recommendation

The Government should request stakeholders to report on how Customer Information Brochures can be made reliable in providing information accurate enough for comparisons with other investments.

3.9.1 This Association has at all times actively supported the provision of accurate information to the customer, so that he/she can make a reasoned financial judgement. However, the Association is not satisfied that the regulations:

- are uniform across the Financial Services Industry: for instance a Unit Trust does not have to disclose future 'aggregated' estimate results of the investment, as does an investment in an Insurance Bond.

- Provide information that is accurate enough to ensure that correct financial decisions are always made.

- Provide information that is accurate enough to allow comparisons across different sectors of the investment markets.

- Ensure that material statements in all Customer Information Brochures will never be false or misleading

3.10 Customer Information Brochure Characteristics

Recommendation 5

> ***The Government should ask stakeholders to report on how Customer Information Brochures, and other material required by regulation, can be used to enhance business activity and opportunity.***

3.10.1 Our list of recommendations is as follows:

- **Factually** correct and complete and not misleading.
- **Clear** - written in “Plain English”, with a glossary for professional terminology.
- **Educational -** Written material should provide a conceptual background for the aims and objectives of the particular product.
- **Written** with a logical flow, with easy to find information.
- **Concise and easy to follow layout of** ancillary information relating to interconnected entities, costs, and services. Four classic examples of this would be:

  (i) Intra group transactions, where a Bank-owned insurance company invests in the Saving Banks products, thereby appearing to have low or ‘nil’ fees, while generating a profit under the Group umbrella.

  (ii) Master Trusts, where Fund Manager expenses and charges are unable to be ascertained beneath the Administrators charges.

  (iii) Professional Services rendered to an investment, such as accounting, auditing, valuation etc, and are deducted “as deemed appropriate” by the Manager.

  (iv) Taxes - where large government charges such as Contributions Tax are combined under “provisions for Stamp duty and tax”.

- **Uniform -** information across all classes of investment should be uniform, including direct property. There are only four classes of investment, and a limited number of costs, charges, and taxes. There is no reason why all investments should not be shown in the same manner, whether it be by Management Expense Ratio (MER), Margin on Services, Interest Spread, or another standard defined method.

- **Not misleading -** Information should not create unrealistic impressions or expectations. The use of projections should be banned. Modern economies fluctuate on a daily basis, and underlying assets with them. Long term projections, returns, inflation, or charges simply multiply the effect of invalid assumptions.A graphical representation of past performance showing all elements overlaid can clearly demonstrate factual investment performance, without being misleading. At worst, a statement could be made regarding “average annualised returns net of taxes and inflation across all classes of Superannuation over xx years”, or “all classes of Commercial Property” etc. No misrepresentation of charges or potential earnings.

- **Positive -** The personal and National benefits of Saving/Investment or Insurance coverage should be stressed, without being dramatised.

- **Standard definitions -** There is no uniform standard for investments or definition of charges in Australia, such as what constitutes “Capital Stable”, “Balanced”, MER, etc.

- **Not prejudiced -** Written material should not be prejudiced for or against any particular distribution method or the remuneration received. It should highlight the advantages of professional advice of any type, and the responsibilities and duties involved. A brief overview of the various methods will suffice, similar to the brief descriptions of portfolio/investment fund makeup.

- **Remuneration** should be portrayed correctly, fairly, and clearly explained as gross income which goes to running a business, and the possibility of “clawback” (commission refund on cancellations) explained. *It should only be shown in percentage terms, as this is the only method which can cope with all variations and situations.* If an adviser is salaried, the element of office and secretarial support must be shown, as this is part of the gross income or target required to be generated. It cannot be swallowed up in “general Bank/Insurance Company overheads”, as in the past.

All of these charges can easily be described as a percentage of “distribution costs” or “total overheads” in a table or pie chart covering “manufacturing” “marketing”, “policy maintenance”, “distribution”, etc. This method was actually almost completely accepted by the ISC, prior to their "change of heart" as previously described.

3.11 Some Details of Argument prior to issue of Circular GI1

3.11.1 In 1995 this Association spent a great deal of effort and time in actively supporting the Government initiative in producing the Chant Link report and in subsequent stakeholders debate on that Report, a debate which has been effectively closed by the issue of Circular GI1.

3.11.2 To demonstrate the problems encountered, and the unsatisfactory result coming from that debate, we are including in this submission detail on subjects in that debate on:

- Long Term Illustrations
- Termination Estimates
- Inflation 'Disclosure'
- Commision Disclosure

3.12 Long Term Illustrations:

3.12.1 The Chant Link report recommendations on long term illustrations were not adopted by the ISC in Circular G11. This major problem illustrates the effect of charges up to 35 year period. In the Chant Link report, consumers (p 20) indicated that*:*

"Further, dollar projections in later years take the reader's focus away from the various warning and charges information. That is, the focus moves to the long term projected value of the policy at the expense of other more pertinent messages ..."and "Therefore, the optimum KFS options for final testing were designed to test whether the inclusion of dollar projections to the KFS had any positive or negative effects of readership, comprehension and receipt of the key communication messages."

3.12.2 Further, we believe there is no valid reason why life policies and superannuation plans based on life products should be singled out for special disclosure rules, when competitors for the savings or investment funds do not have to disclose in a similar way. Even disclosures within the life industry between direct selling and advice selling are substantially different.

3.12.3 The ALA has consistently espoused the view that any illustration for a period longer than 10 years are misleading, due to the fact that these long term predictions are based on continuation of current taxation rates and arrangements, while the return relies on calculations continuation of which must be made as set by the ISC well below the current or average rate over, say, the last 5 years. Whilst it is stated in the CIB that they are not related in any way to the product's actual return, the implication is that they do! This is a major contributor in misleading the customer.

3.12.4 The Chant Link testing, and results are on a very narrow view and did not take into account the other effects of providing long term illustrations. These again can be very misleading, especially when a 35 year illustration is adopted as the "norm". For instance, of what relevance is a 35 year projection to a 54 year old?

3.12.5 The ALA policy on this area of disclosure is:

"There should be no future policy illustrations in the KFS or in the Policy Information Statement (PIS) or Annual Policy Statement, or in the computer illustrations on company software. If the costs are clear and precise, and if standard compound interest tables are used correctly there is no need for written descriptions or tables of illustrative values". (ALA policy)

3.13 Termination Estimates

3.13.1 Coupled with the problem of using a long projection period of up to 35 years, is the problem that the successive termination values, as required to be presented, can be significantly different to the reality. The reasons for this are:

- The way a current life insurance savings policy works, the Cost Charges and Commission being all related to the length of the policy. The illustrations in the CIB cannot show these problems.

- The need to use rates of return that are below the norm.

3.13.2 The solution to this problem of misleading information is not to allow illustrations to be more than 10 years, and explain how this information will relate to policies of a longer term.

3.14 Inflation "Disclosure"

3.14.1 Page 60 of the Circular G I 1 states,

"Over the long term, the effects of inflation will be significant. Inflation reduces the spending power of money so that, at an assumed inflation rate of ...% p.a., getting $... in 25 years time would be like having $... today. Your contributions of $... over 25 years would be worth $... today".

3.14.2 The findings of the Chant Link Report on this issue, accepted by the ISC (p 22)

"The same conclusion was drawn for this aspect of disclosure, as for alternative rates of return. That is, flawed messages would be received by consumers if tabulated material showing projections of 'real' returns and premiums were included.

3.14.3 *"Those who understood inflation, or were capable and interested, were able to notice and comprehend the footnotes and descriptive warning on this issue. Consumers generally felt they needed simple information about inflation and its effects on the value of their future benefits.*

3.14.4 *"It was proposed therefore, that inflation could be handled in a warning message encouraging consumers to be aware of the effects of inflation, to seek advice from an adviser about the implications of inflation, and by footnotes to tables, if projected termination values are included for the later years."* The ALA concurs absolutely with this view.

3.14.5 In Chant Link's Conclusions and Recommendations under the heading "The Effects of Inflation on the Benefits", there is the following:

"There were however 40 percent of respondents who did not understand inflation. It was concluded however, that based on the qualitative and quantitative data, there was probably little more that could be done to enhance comprehension of this issue. This was seen as an area in which the agent/adviser may be able to explain the KFS sections dealing with inflation effects to the consumer."

3.14.6 ALA's view has always been, that inflation "health warnings" should not be included in CIBs, as such warnings or statements are not required by any competitor, including Unit Trusts, Fixed Interest, Bank deposits or similar investments. The question of why the Life Insurance Industry class was singled out has never been answered by the Government or the ISC. The response has always been *"It's going in and lets not waste time on it*". The Chant Link recommendations on inflation were not accepted by the ISC. The industry must insist on a "level playing field" in relation to statements regarding the effects of inflation.

3.15 Commission Disclosure

3.15.1 Chant Link, in their discussion with consumers on commission disclosure, reported:

- *"Agent/Adviser commission or remuneration was seen to be less relevant to consumers than total charges and the impact of charges on bottom line surrender value.*

- *"Charges were regarded as needing simplified explanations, projections and worked examples for regular premium products.*

- *"Information on Commission, if provided in detailed form, tended to confuse consumers, especially with regard to whether or not commissions were part of total charges.*

- *"It was recommended that the KFS options to be further tested should not include tabular projects of commissions, but rather a simplified description of commissions, and reference to other sources of information about commissions payable or usually payable to agents and advisers, a general statement that commission could account for between x% and y% of the charges was suggested as a possible additional sentence."*

3.15.2 In the Chant Link Conclusion and Recommendations (p 135), in their summary of the key communication objectives of the KFS, Chant Link does not mention commission disclosure.

3.15.3 And on page 143 these recommendations say:

"Agent/Adviser remuneration -The qualitative research shows consumers did not want a large amount of detail in this area..." This was not accepted by the ISC.

3.15.4 Consumers (p 20) indicated that*:*

"Further, dollar projections in later years takes the reader's focus away from the various warning and charges information. That is, the focus moves to the long term projected value of the policy at the expense of other more pertinent messages..." and *"Therefore, the optimum KFS options for final testing were designed to test whether the inclusion of dollar projections to the KFS had any positive or negative effects of readership, comprehension and receipt of the key communication messages."*

3.16 Conclusion

3.16.1 There must be a level, correct, and fair playing field across the Financial Industry.

3.16.2 Invariably, inequities and anomalies come home to roost, and the eventual cost is huge. It is far easier to invest therefore in "*doing things right*" from the start, rather than create a patchwork of poor solutions constantly being tinkered with.

3.16.3 Our pincipal concern is that, as a result of the prescriptive nature of the disclosure requirements in some of these documents, the information provided is sufficiently misleading as to cause the consumer to make an unsound financial decision.

3.16.4 *“If the proposed information could be misleading to the customer then it should be discarded”*.

4 Introduction

This Association believes that it is to the nation's benefit that government implement a sensible savings policy in Australia. We see savings as the way to turn this country around from the financial and economic decline of the last 20 years.

We look overseas and see what can be achieved. In particular, Singapore over the last thirty years is a major example. With no natural resources at all on an inhospitable island, by sensible government policy, Singapore has moved from being probably the poorest per capita country in South East Asia, to now being second only to the United States as the wealthiest per capita nation in the world. This has been achieved by good Government savings policy, helped by compulsory savings.

4.2 The Need for a Culture Change regarding Savings in Australia

Recommendation

The Australian Government becomes actively involved in the promotion of savings as a national project.

Australians are not savers. The Australian attitude of "She'll be right, mate" is endemic. A major attitude change in Australia regarding savings is an enormous task. As evidenced during the presentation of the last Federal Budget, the development of minority pressure groups has reached an all time high in Australia, and these groups are enormously skillful in manipulating concessions. There is no thought for the "greater good". 'It is our right', they say. To change the attitude of the person in the street to wanting to save is going to require a mighty effort.

Children are not taught savings at school**.** They do not understand the difference between simple interest and compound interest; they are not taught how they can save for retirement, or the medium to long term, and the advantages of doing so. They do not understand stocks and shares and how the share market works, and certainly they are not taught how to run a household budget, which they will inevitably have to do one day. To get savings growing, our children need to be taught about saving money.

The Tax System has to be fair; and to many minority groups in the community it is not fair. The problem with unfairness is that people turn off and say ‘if it is unfair I won’t participate’.

“*To save money everyone needs a system. Few people can effectively save over the medium to long term without an effective system. The success of many savings plans is not so much determined by the place where the monies are invested, but the systematic methodology of putting the money in, and then leaving it there!” -Warren Stanley ALA Task Force Committee - 1996*

Effective savings products need to be presented in such a way that fees and charges of all savings and investment products can be clearly understood by the ordinary person, and not just the financial professional. Practices such as hiding costs within a crediting rate should not be allowed.

Recommendation

That the Australian Government actively encourage regular conferences between manufacturers of financial savings products and consumers. This Association is happy to help with this process.

There needs to be continuing dialogue between the providers of the products and the recognised consumer organisations to improve the presentation of products to the consumer, the idea being to have such products totally transparent to the consumer.

The resources for savings we have at our disposal in Australia are not being used. The banks tend to take the deposits but do not give advice on where those deposits should be placed for the best advantage for the saver. The life companies, who have lost 70% of their adviser distribution network in the last 5 years, are not now actively promoting savings within their portfolios, except in specified areas such as superannuation. The major reason is that the products available through life companies are not transparent, and not being transparent they are attacked by the consumer organisations as “bad”. One of the best life insurance savings vehicles is the traditional endowment policy, earning a suitably reliable after-tax return each year, after the life company has paid 39% tax to the Government, with a high level of security. This splendid savings policy is totally opaque, and so is presently unsuitable to to-days saving market dominated by consumer demands.

There is very easy access to credit today with a resultant enormous impact on saving culture. Lending institutions and large retail companies are actively offering credit. While this is a pleasant change from past banking practices, it does encourage a large percentage of the population to spend before they have accumulated the required funds. Paying for the goods or service is put off to ‘tomorrows problem’. The community attitude is exacerbated by Government deficit budgets, which likewise put off the problem of paying the bill until tomorrow. The society is largely financing lifestyle from debt rather than savings! We need to change the culture.

4.3 Savings and Incentives

One of John Howard and the Coalition’s major themes a few years ago was to create an environment where people have an incentive to better themselves. The current system offers few, if any incentives. Rather, the incentives are there for those who spend now on lifestyle and do not provide for their own future, but rely on Government assistance. For too many of those who seek to provide for their own future, it seems that the harder they work, the harder they are hit.

The changes to introduce a surcharge on deductible superannuation contributions for high income earners is an example of this ‘disincentive’ to provide for ones own needs. While it is politically very acceptable to be seen to be penalising the high income earners and appearing to make the system fairer, it removes incentive to provide more than the statutory basic amount. Nor does it take into account the person who has worked hard to obtain qualifications and expertise to be able to earn a high income. Nor does it take into account the family supported entirely by a ‘high income earner’, enabling the spouse to look after the children and participate in community support structures. It favours the lower skilled, where both partners work.

For those who are willing and able to accumulate resources for the medium to long term, they later become consumers who support the goods and services offered in the community. The pain of saving today provides the higher standards of living to-morrow.

There needs to be a major re-introduction of ‘incentive to better oneself’. A couple of the changes in this latest budget are very good in this regard - CGT changes to rolling over a business and the reduction in Provisional Tax are both encouraging. But there needs to be much more than this.

4.4 Two Major Dimensions in Savings in Australia

Recommendations

The Australian Government should give incentives and promotion to all savings in Australia.

There are currently broadly speaking two dimensions in savings in Australia, Superannuation and non Superannuation Savings. It is important that both these aspects of savings in Australia are promoted, not one against the other.

We need to encourage a financial system which encourages savings, and at the same time provides flexibility for a variety of lifestyle decisions. A 'black and white' model presumes that each worker works full time until age 65 and totally ceases work - then depending upon their retirement savings, perhaps aided by Social Security, to see them through until they die.

Society today is vastly different from this 'black and white' model. Many people choose to work beyond age 65, either fully or part time. Many people choose to make a lifestyle change, downgrading their work intensity in their 50's or early 60's; perhaps by a change of the level at which they work full time, or by commencing to work part time. They may do this in order to preserve their physical and mental health, to give more time to their families and/or more time to their community.

4.5 What should Government do?

Recommendation

The Australian Government should act as quickly as possible to set a level of savings of a positive 2% in its own operational budget.

"The first area where a Government needs to act directly to set a level of saving is in its own operation budget which, on average, should contribute at lease a positive 2 per cent of GDP to saving.

" It is important to understand that national savings includes public (government) saving, which is the surplus - if any - of government's recurrent revenues over its operating expenses. In fact the

Commonwealth itself, which consistently contributed politically to saving up the mid 1970s, has been the main source of the decline since. Government operating deficits (i.e. dis-saving), incurred in spending on purely current needs and leaving no asset for the future, are unfair to the next generation".
(Dr. V.W. FitzGerald 1995)

When a household overspends its income, there is no money and so the household cannot go on overspending. This rudimentary deterrent is not a factor in Government, because it also <u>makes</u> the money. A government therefore has not only to be strongly willed to do the right thing and save, it must also have the political cunning to be re-elected. If it has none or only one of these criteria, then it will disappear in periodic democratic activity that we enjoy.

4.6 Compulsory Savings in Superannuation

A second area where government needs to act directly to set a level of saving is to provide an obligatory self- provision for retirement by all those the have the means to do so. (Dr. V. W. FitzGerald 1995)

The Australian Government has done some good work so far as this area of government activity is concerned. The plan for a 15% of salary into each taxpayers superannuation by the year 2000 is very commendable although part of that savings, that is the employee part, (3% ea) is not fixed in cement. Maybe there is a better way of doing it. One should not lose sight of the fact that in Singapore the amount going into the provident fund from each person earning income is 40% not 15%.

Recommendation

The Australian Government should confer with the Superannuation Industry to settle as soon as possible the terms of compulsory superannuation contributions.

A real danger at the present time seems to be the constant changing of the rules - for superannuation. Changing rules always creates a massive erosion in confidence in any system of savings. No-one can be certain that the system they work under, setting up personal goals and creating personal plans and expectations, will not be changed by a later Government, essentially destroying or severely disrupting their plans. People simply lose heart and cease trying to provide for themselves - they leave it up to welfare.

A degree of certainty must be introduced, so that people can make plans for long term savings and wealth creation with the confidence that their plans, made under the laws of the day, will not be overturned in the future.

For many, there is no choice in the lifestyle change that retirement brings. Retrenchment may mean that the old level of work is simply not available as they get older. How easy is it for many middle managers and supervisors to get work in their mid 50's?

"Job sharing" is much more practiced today than in the past. It enables people to enjoy a level of income and an acceptable lifestyle.

Yet trends in the structure of superannuation regulations in particular are working against the increasing flexibility required by our community.

In superannuation there are some Government incentives which would help attract the saving dollar:

- Use the total tax concession dollar approved by the Government fairly.
- As Retirement Savings are for retirement, bite the bullet for compulsory use of the majority of funds available to provide an income rather than allow the payout of funds as lump sums (which will need to be invested anyway if the savings are to achieve their stated objective).

4.7 Non Super Savings

There has been a major but unfortunate cultural change: the definition of 'long term' in financial terms has dramatically shortened in the eyes of most people: 'long term' is now 5 years, rather than 20 years.

Therefore medium to long term savings has become 2 years to 5 years, instead of 10 years to 25 years.

This attitude is working against people seeking to save for the period of 10 to 20 years - rather it is all actually short term (2-5 years) or retirement. The middle has been left out. It is this 'middle' savings that provides a great deal of the investment funds for the community. In particular the life industry has its calculations related to 10 years, which might now be considered out of date.

Recommendation

That suitable people examine the 10 year rule so far as life insurance is concerned and make recommendations to the Australian Government.

Every person is different. Therefore, the more different types of savings vehicle that are available to the public through the different financial institutions, the more funds will be caught.

4.8 Conclusion

In all these deliberations, there must be an overriding concern for compassion in our community. We can have a society where there is vast wealth, all the underlying finances of the economy are correct, there are wonderful incentives to better oneself, but individual people suffer and the society is uncaring to those who are in genuine need.

Determining what is ‘genuine need’ is very difficult, but must be done if the society is to be worth living in. Also the challenge of getting the economy right, providing incentive for those who seek to better themselves while at the same time maintaining compassion, is very hard. But it must be seriously attempted.

The answers to the future savings needs of our society are not entirely summed up in dollars and cents and balancing the books. A major factor is making the society compassionate and flexible. One of the great things about our country, indeed one of the things that has attracted so many people from overseas to live here, is the freedom and flexibility to make our own decisions and make our own lifestyle.

This does not mean that the Government should be weak kneed in its approach to the savings dilemma; rather it should always be promoting what it thinks is best. A permanent dialogue between the Government and the community on savings policies is essential. Incentive to save is a very useful tool in the way government thinks best, but above all, the government must cultivate confidence in the system, so that planning by individual citizens is not destroyed by government decisions for short term political gain or short term budgetary considerations.

Recommendation

That procedures be adopted for Government plans to make changes to any saving concession in Australia

5 Appendix

Attachment

A Financial Service Industry Competition Model for Advisers Membership

B Life Insurance Code of Practice S.28

C Hurdles to the Sale

D Current Distribution of Life Insurance in Australia Today

E ALA's View for the Future

F Single Regulator Diagrams (i) & (ii)

G ALA Policy on Registration of Advisers in the Financial Services Industry in Australia

H Ernst & Young Report - Life Insurance Advisers Registration Board

I Information Paper on Proposed Registration Scheme for Life Insurance Advisers

J Customer Information Brochure - Lumley Life Limited example