

## Sedgwick Noble Lowndes

### Submission to the Financial System Inquiry

#### **Executive Summary**

Sedgwick Noble Lowndes Limited (SNL) is one of Australia's leading employee benefits, human resources, and financial planning consultants with some 330 staff in Australia.

In this submission we express our view on a number of issues which are relevant to our business and the Inquiry. The matters we comment on are:

- The regulation infrastructure for financial products offered to wholesale or retail investors
- Employer sponsored superannuation and savings schemes
- Disclosure requirements
- Unique numerical identifier for individual investors

#### **Regulation infrastructure**

A lot has been written and said about the inefficiency of having many competing regulators such as the Australian Securities Commission (ASC), the Insurance and Superannuation Commission (ISC), the Reserve Bank, the Australian Consumer and Competition Commission, etc...

SNL believes that a multiplicity of regulators is not necessarily a bad thing as long as their friendly competition results in better procedures and greater protection of the investing public. We note in particular the positive effect of the competition between the ASC and the ISC; it has resulted in more streamlined and rational administration procedures and more helpful disclosure practices.

We are however concerned that investment products offered by different types of institutions are regulated in a different way.

For instance life offices which are mostly regulated by the ISC can offer unitised investment products which have much the same look and feel as products issued by other financial institutions regulated by the ASC. As a result the same investment product can be subject to different disclosure requirements and advisers on these products are regulated in a different way.

Another example is capital guaranteed products which can be offered only by life offices. This has led to the illogical situation where a financial institution acquires a life office in order to be able to offer a capital guaranteed product which in many cases does not have any insurance component whatsoever.

SNL believes that a lot of confusion could be avoided if each product was regulated the same way irrespective of the type of institution which offers it.

This either calls for greater cooperation among the various regulatory agencies or regulation by a single agency.

Another area of concern is the fact that life and disability insurance products and investment products are increasingly distributed by the same advisers. However, there are different licensing requirements and codes of conduct for each of these products.

The activities of financial advisers would be greatly simplified if licenses and codes of conduct for life and disability insurance products and investment products were harmonised. This also can be achieved by greater cooperation between regulatory agencies or regulation by a single agency.

### **Employer sponsored superannuation and savings schemes**

Government regulations are gradually making employer sponsored superannuation and savings schemes more costly and troublesome to run.

SNL believes this is the wrong policy. The vast majority of the working population has little knowledge and interest in investment matters. Employer sponsored schemes can act as one of the most effective methods of distributing financial products in a way which requires minimum involvement from the general public and yet provides a fair degree of control by an employer or trustee which typically has superior knowledge of financial matters.

Access to individual saving arrangements such as Do It Yourself superannuation funds, "over the counter" share investment facilities, and unit trusts provides informed investors with very useful investment vehicles. However, in the hands of less sophisticated investors they can become a recipe for disaster.

SNL recommends that the development of employer sponsored superannuation and savings schemes be encouraged by simpler compliance requirements.

### **Disclosure requirements**

Compulsory superannuation has meant that every Australian worker will need to make difficult investment decisions at some stage of their life. As a result the typical level of sophistication of investors has become that of the general public.

Disclosure requirements designed to inform the public on investment products have traditionally been aimed at professional investors and their legal advisers. For instance, the ASC requires the list of authorised investments appearing in the trust deed of publicly offered investment products to be reproduced verbatim in a prospectus.

In contrast, the ISC requires trustees of superannuation funds to clearly state their investment objectives and strategy. As far as informing the general public the ISC requirement is quite helpful but the ASC requirement is next to useless.

SNL recommends that regulators recognise that the investing public now includes most of the Australian working and retired population and the disclosure requirements should be couched to the level appropriate for this new clientele.

### **Unique Numerical Identifier**

While we do not deny there are serious privacy implications, there is an enormous cost to society of not being able to identify individuals through a unique number in computer systems.

Each financial institution must spend more money in developing computer systems. Further, organisations providing information to or receiving information from other financial institutions incur additional staff cost in trying to identify individuals by name, address, date of birth etc... instead of a unique number.

The lack of a unique numerical identifier is proving a major impediment in linking computer systems which deal with individuals. It will eventually prevent Australian financial systems from getting the full benefit of computer technology.

There are also indirect costs arising from tax avoidance, undetected criminal activities, and lost beneficiaries.

SNL strongly supports the use of a unique numerical identifier for every Australian resident.

