

SPEECH BY
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ADDRESS TO THE
INVESTMENT AND FINANCIAL SERVICES ASSOCIATION

“BUILDING A BETTER FINANCIAL SERVICES INDUSTRY”

Key points

Budget outcomes on superannuation: will enhance Australians' freedom of choice about working and planning for retirement, and consumption possibilities.

Business investment: Budget initiatives will deliver benefits to investment community.

Challenges for industry: include managing client expectations, distribution and remuneration issues, professionalisation of industry; conflicts of interest.

Financial literacy: will help to address these issues, but it is a long-term proposition.

SYDNEY

6 JUNE 2006

It gives me great pleasure to address a meeting of the Investment and Financial Services Association.

At the outset I would like to commend IFSA for the way it goes about its work with Government.

The way the organisation works to achieve its objectives, in my opinion, makes IFSA an articulate and extremely effective advocate for its members.

In particular your CEO Richard Gilbert is a fantastic person to work with and I enjoy catching up with Richard on a regular basis – after all, we are both united by the one objective – to build a better financial services industry.

I know that's what **ALL** of us who are here today want.

I've been asked to talk about how we might achieve this objective – how we might make the industry better for those involved in it, better for consumers, and better for the Australian economy.

But first, I think it is important to consider the impact of last month's Federal Budget on the financial services sector.

Budget impact on financial services sector

The new superannuation initiative announced on Budget night was labelled: *Simpler Super: A Plan to Simplify and Streamline Superannuation*.

The key words — “simpler”, “simplify” and “streamline” — say it all.

As the Treasurer, in his own inimitable way, pointed out in his post-Budget address to the Press Club, if you asked the average person nearing retirement age whether they wanted a lump sum... a complying pension... or an allocated pension, most of them would probably say that what they wanted was a Bex and a good lie down!

Of course, the Treasurer was joking. But he made a valid point.

The Government recognises, like many of you in the industry do, that the superannuation system as it stands is just far too complex for people to deal with.

And that's particularly true for people approaching retirement age. These people are, perhaps, at the most critical time in their life.

It's the time of their life when they need certainty, not confusion. And that's what the changes announced in the Budget are designed to give them: Simplicity and certainty in the place of complexity and confusion.

Under the new system, to be introduced from July 1st 2007, the rules are much more sensible and easier to understand.

If you're over 60, you won't pay any tax on your pension if it's paid from a taxed superannuation fund. Nor will you pay any tax on a lump sum.

That's pretty straightforward.

The Government's *Simpler Super* plan is the most radical overhaul of our superannuation system in two decades.

In addition to sweeping away a growing tide of complexity, it will also provide Australians with far more flexibility as to how and when they can draw down their superannuation.

Not only that, but because the plan also increases the average Australian's incentive to work and save, people will have more money to contribute to their super funds.

It's all about providing for the future. And that is, after all, the lifeblood of the investment industry.

By simplifying the system, and by encouraging Australians to save for their retirement, we are helping to provide for the future of individual Australians... the future of our economy... and the future of your industry.

But, as with any change, these proposals will take some getting used to.

The Government knows that. So the Government is providing a consultation period on the superannuation reforms.

Straight after the plan was announced in the Budget, a three-month consultation period began on the proposed reforms.

The consultation period will close on the 9th of August 2006.

I encourage IFSA members to have their say and to work with Government to ensure that we get the best outcomes for all Australians.

Budget impact on investment

The Budget revealed that a favourable business environment and strong global demand should see business investment record its largest contribution to GDP growth in two decades in 2005-06. And further growth is forecast for 2006-07.

The initiatives announced in the Budget should help to maintain the stable environment for businesses that will enable them to continue to make profitable and sustainable investment decisions.

This is complemented by other confidence-building measures contained in the Budget: The tax relief assistance to families ... as well as other changes — such as higher investment in roads and other infrastructure.

All these very positive initiatives will, importantly, have the flow-on effect of increasing investment, thus building for Australia's future.

The future of the financial services industry

Turning now to my theme of building a better financial services industry.

The Treasurer's remarks on Budget night about the financial planning industry, and my follow-up comments, have generated quite a lot of commentary.

I think it is important to stress that neither the Treasurer nor I believe that the changes announced in the Budget will lead to the 'death of the planning industry' as some have suggested.

I believe that, in the long-term, planners will achieve a net gain in new business as confidence in the market grows and the education of investors continues to improve.

Your industry is critically important to the Australian economy.

The Australian funds management industry manages over \$814 billion for over nine million Australian investors.

It's anticipated that the managed funds industry will continue to experience high rates

of growth, with total funds under management forecast to reach some \$2.3 trillion by 2015.

I'm not suggesting that we need to build a better financial services industry because it is lacking in any way.

Rather, the key message I would like to give you today is that the future of your industry rests on ***truly*** serving the needs of the Australian investor — needs which are changing and evolving from year to year.

That's also the focus of the Australian Government.

If Government and industry jointly focus on this goal, we will be able to create a financial services industry that better meets the needs of its clients.

And, in doing so, I believe we will create a stronger industry.

On the theme of looking towards the future, I would like to outline some of the issues that you, as an industry, could consider.

Managing expectations

As with any service industry, the investment and financial services sector depends on how consumers feel about the services you provide.

In my role as Parliamentary Secretary to the Treasurer, I receive literally hundreds of letters from members of the public.

Many of them write to me complaining about aspects of financial services.

As I see it, this is often because consumers feel that the service did not meet their expectations.

So this is one of the really big challenges — how do we manage consumer expectations?

I am not suggesting for a moment that there is anything wrong with the products themselves.

But poor consumer knowledge and understanding is an issue the industry does need to deal with, simply because it affects the way your products are perceived.

The marketing profession has been saying for decades that "perception is reality". Or, to put it another way, "you are what you **appear** to be". And this is certainly true for any service industry.

We currently place great reliance on disclosure as a tool for helping people to better understand their investment decisions.

The disclosure regime certainly provides a potential investor with the information they need to make decisions.

But, as in so many other areas of our increasingly complex world, investors are often overwhelmed by the sheer volume of information available to them.

Notwithstanding this, it is important for investors to understand that they are ultimately responsible for their own financial decision-making.

Advisors are required to provide professional, unbiased advice which takes the client's individual circumstances into account.

From my experience it is clear to me that most people in the industry realise that your clients rely heavily on your advice.

In most cases, the professional advice you provide to your clients can and indeed does, have a profound effect on their future wellbeing.

I have said many times that consumer education will address many of these issues. I'll talk a bit more about that in a minute...

Distribution and remuneration issues

Another issue to consider is distribution and remuneration arrangements.

Increasingly, your clients are now directly matching the value of the advice you give them with how much they pay for it. This is obviously a welcome trend.

The Government encourages the move away from traditional sales commissions that are not related to the value of the advice provided.

Whether they pay for advice upfront, or later through commission structures, investors need to feel that they are getting value for money.

In recent times there has been considerable discussion about the way advisers should be paid – up front fee for service or on a commission basis.

I would like to comment on this issue and in saying something I want to be very clear on this point.

It is not for the Government to dictate to the funds management industry how it is to be paid.

This is a decision for the industry. So, to be perfectly blunt, I would encourage **you** to sort it out.

In saying that, I welcome the debate and wholeheartedly encourage you to approach this debate with a level head and with the best interests of consumers *and* the sector at heart.

Professionalisation of industry

The industry is also responding to the growing sophistication of the market.

A decade or so ago many people tended to be passive about saving and investing for the future. They started thinking about investment only when they had a windfall or when a salesperson promoted a financial product to them.

The world has moved on. Those same Australians now want professional, objective advice — not just product sales advice.

We can never underestimate the immense value of professionalism, and maintaining a good reputation in the marketplace.

The recent reforms to financial services regulations recognised this trend.

The law accommodates and encourages the increasing professionalisation of financial advisers.

The provision of financial advice as a professional service raises the important public policy issue of how affordable and accessible financial advice is for people on modest means.

I recognise that there are no easy answers to this issue. I would value the views of your members to help guide my thinking.

We know that Australians do want professional advice in managing their money and saving and investing for the future.

Conflicts of interest

The Government believes the best approach to ensuring consumers have access to affordable, quality financial advice is to

continue to encourage financial advisers to avoid conflicts of interest.

But, where conflicts of interest are unavoidable, financial advisors must manage them and disclose them to consumers.

Financial literacy

I mentioned earlier that better educating consumers about financial issues will address many of the issues I have raised.

I believe this to be a vitally important area and a responsibility for all of us – all of us have a role to play in this area.

But this requires a long-term, sustained effort.

The Australian Government has already made a substantial commitment to ongoing consumer education by establishing the Financial Literacy Foundation.

The Foundation is tackling fundamental financial literacy through the National Consumer and Financial Literacy Framework for schools.

The Framework will provide all Australian schoolchildren — from kindergarten upwards — with access to financial literacy education during their compulsory years at school.

This initiative will equip the next generation of Australians with the knowledge they need to make the financial decisions they will face in adult life.

The Financial Literacy Foundation is also tackling the needs of today's investors.

This year, the Foundation will deliver a national information campaign to help consumers better understand the financial decisions they need to make.

The information campaign will provide consumers with easy-to-understand information on a range of financial literacy issues.

The information will be provided through print and web-based materials, and will be supported by mass media advertising.

Of course, these resources will cover financial advice and address issues like when it may be a good idea to seek help from a professional financial planner.

The resources will also provide consumers with links to various government, industry and

community sector organisations that can help them.

Ultimately, the information campaign is designed to improve consumers' financial knowledge, understanding, skills and confidence.

That means that when they consult your members for professional advice, they will be better informed and have reasonable expectations of what you can provide.

I mentioned earlier that financial literacy is a long-term proposition.

That's why the Financial Literacy Foundation's work programme includes a substantial research initiative.

The Foundation has commissioned a study to establish benchmark levels of financial literacy across the Australian community.

Conclusion

Ladies and gentlemen, we in Government are working hard to provide the optimum environment for businesses to grow and prosper... and for Australian families to invest, save and plan for their futures.

We are working together to build a better financial services industry.

At the same time, we must recognise that we are living in an increasingly dynamic world. And change always produces challenges.

By working together, in an open and cooperative way I firmly believe that Government and industry can meet not just the challenges I have outlined this afternoon but the new challenges that will inevitably come our way.

By doing this and by striving for an even better financial services industry we will deliver to all Australian investors an environment in which they can grow, prosper and thrive.

Thank you.