Media Release

Senator Mathias Cormann
Shadow Assistant Treasurer
Shadow Minister for Financial Services and Superannuation

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Higher costs, red tape & less choice for consumers under FOFA II

Investors who receive financial advice will face more red tape, increased costs and reduced choice if Labor's latest version of Future of Financial Advice proposals passed the Parliament in full.

"The Coalition supports sensible financial advice reforms which increase transparency, consumer choice and competition," Shadow Financial Services Minister Mathias Cormann said.

"However, any reforms in this area need to strike the right balance between appropriate levels of consumer protection and ensuring the availability, accessibility and affordability of high quality financial advice," he said.

"That's why we have said for some time that we support in principle the proposed 'statutory best interests duty' for financial advisers, subject to seeing the detail in the legislation.

"However, Labor's push to force people to keep re-signing contracts with their financial advisers on a regular basis is bad public policy which does not strike the right balance.

"We note Bill Shorten has backed down from his initial intention to force people to re-sign those contracts every year.

"However even his revised proposal to require people to re-sign contracts every two years will add unnecessary red tape, increasing costs for both small business financial advisers and for their clients. We do not think the Parliament should endorse it.

"According to Treasury evidence during recent Senate Estimates an average small business financial advisory firm would face $50,000 per annum in additional costs as a result of Labor's latest iteration of its so called Opt-In proposals.

"Given the new 'statutory best interests duty' there are better, more than adequate and less costly ways to prevent consumers from paying for financial services they don't need.

"Specifically, to ensure financial advice fees are transparent, with consumers able to opt out of financial advice arrangements or to change advisers without imposing the additional burden created by Labor's Opt-In proposal would be a better and more appropriate way.

"The Minister himself seems somewhat confused and unsure about the merits of his Opt-In proposals as he is yet to decide whether to apply any penalties to breaches of his proposed Opt-In requirements.

"Bill Shorten's new proposal to ban all commissions on risk insurance inside superannuation is another bad element of this latest version of Labor's proposed Future of Financial Advice changes.

"We do not agree with Labor's assertion that commissions on risk insurance are in themselves a conflicted remuneration structure.

"We know from recent experience in the UK that the banning of commissions on risk insurance does not work, which is why the UK has reversed that decision. We should learn from that experience.

"Banning commissions on risk insurance will increase costs for consumers, remove choice and leave many people worse off – particularly small business people who self-manage their super.

"We already have a problem of underinsurance in Australia, which this proposed ban would only make worse because it increases the upfront cost of taking out adequate risk insurance.

"To treat commissions on all risk insurance inside super differently from insurance outside super will also create inappropriate distortions, which invariably will not be in the best interests of consumers.

"We agree that those Australians who receive automatic risk insurance within their super fund without accessing any advice should not be required to pay commissions.

"However, those Australians who require and seek advice to ensure adequate risk cover, whether inside or outside of their super fund, should have the same opportunity to choose the most appropriate remuneration arrangement for them.

"Neither the proposed two-yearly Opt-In requirement, nor the proposed bans of commissions on risk insurance inside super would have prevented the collapses of Trio, Storm or Westpoint.

"In relation to volume rebates our position has been clear for some time – those rebates which distort investment advice should be banned.

"However, volume rebates which do not distort advice, are part of legitimate business practice and deliver direct benefits to consumers or enhance competition should be quarantined from any ban.

"It is unclear from the Minister's announcement whether his proposed ban of volume rebates is appropriately targeted.

"The Minister needs to clarify exactly which rebates will not be part of the proposed ban.

"Many other FOFA proposals still lack adequate detail for us to make final policy decisions. These include the ultimate definition of the 'best interest duty' (supported in principle), grandfathering arrangements for the ban on commissions generally, scalable advice and the regulatory definition of 'financial planner/adviser'.

"We will continue to examine all those proposed changes in close consultation with all stakeholders and make final decisions once the necessary detail and the proposed legislation is available," Senator Cormann said.

MEDIA CONTACT:

Senator Cormann	0411 874 546
Slade Brockman	0427 261 980