



General Manager
Retail Investor Division
The Treasury
Langton Crescent
PARKES ACT 2600

To whom it may concern,

I appreciate the opportunity to submit to The Treasury the following in regard to the “Exposure Draft – FOFA Amendments”. My response is limited to the changes to exempting general advice from the ban on conflicted remuneration; and broadening the existing grandfathering provisions for the ban on conflicted remuneration.

My submission is made from the viewpoint of an industry practitioner who deals with employers and their employees on a daily basis. I feel I can best add value by relaying the outcomes of interactions we have had with employers and employees and by passing on the observations we have made about the efficacy of the current advice arrangements, from a financial advisors perspective.

I congratulate the government on their efforts to simplify this area, reduce red tape and improve efficiencies while at the same time maintaining member protection.

Your aim of bringing financial advice to more Australians is paramount to the wellbeing of both individuals and the Australian economy in the long term. The workplace, in conjunction with the Australian superannuation system, through the corporate superannuation environment is one of the few channels to provide this advice efficiently to the vast majority of Australians.

A healthy and diverse range of advisers is central to delivering quality financial advice. However to provide advice in this space requires those advisers to be paid fairly in a way that is transparent to all stakeholders.

Our services specifically provides general advice to members of corporate superannuation funds on a day to day basis. We work closely with employers to identify the best avenues within their business to make contact with employees in the workplace. Our general advice focuses on (but is not limited to) retirement adequacy, contributions, investments and insurance within super. Much of this general advice is delivered via education seminars, one on ones or employees directly phoning or emailing us.

Intra-fund advice

The “intra-fund advice” solution you are proposing is an acceptable solution that complies with the current “My super” rules. “Intra-fund advice” should be limited to “general advice”. Any fee applicable to “Intra-fund advice” should be transparent i.e. separate from any other allowable fee.

The “intra-fund” fee should be negotiable (up to a pre-determined maximum) at the workplace level (as are other fees) and based on the level of engagement in the workplace. This fee should be a per member fee (not asset-based). This is necessary as the level of engagement varies dramatically

based on many factors e.g. number of staff, number of sites, geographical spread, employer philosophy etc.

This fee should be excluded from conflicted remuneration as it does not form a conflict of interest for the adviser. To the contrary, this remuneration allows advisers to remain engaged in the workplace, provide education and ongoing support and encourages more investors to take part in the financial planning process, thus improving their financial wellbeing.

Product selection

Like many advisers specialising in the corporate superannuation space, we do not suffer from the conflict of interest imposed by being an employee of the product provider utilised by the employer. Additionally, as the holder of an Australian Financial Service Licence, our advice is not limited to restricted strategies, investments, provider or product. Although much of our advice to members can be accommodated within the product platform utilised by their employer, we can, where the best interests of the client are satisfied, consider other products or strategies.

Without advisers who are not employees of the product provider, employers and members are restricted to information supplied by the provider. As a result, they are significantly less likely to receive information regarding the competitiveness of their current offer e.g. investment performance, insurance premiums, additional features or benefits. Only a handful of larger corporates nationally would have the resources or desire to employ external consultants to review their provider. This will result in reduced competition, reduced services and nullify any future fee reductions.

The default superannuation market should be broadened to include all MySuper compliant funds. This is likely to trigger many employers looking to create efficiencies by consolidating to one default fund for their members rather than multiple funds as required by modern awards. Under current regulation, advisers who provide product selection services cannot receive ongoing commission i.e. ongoing remuneration would be considered “conflicted remuneration”. Most advisers therefore will not engage in this activity, resulting in the majority of the market not being able to access this service without significant costs. Potential efficiencies, innovation & product development may be lost as a consequence.

Product Selection Services should not create a situation where ongoing remuneration is conflicted. If “intra-fund advice” fees are standardised, transparent & dollar per member based, they will be uniform regardless of provider selected. They enable the adviser to remain engaged, educate, lobby for a better deal for members, review the plan, encourage providers to innovate and, if necessary, conduct a tender with a view to change the provider.

Education

Superannuation is underpinned by the Australian Taxation System while the investment options available are the synthesis of decades of market and economic experience. Add to this the need to project into the long term future and the Australian superannuation system presents a complex maze most Australians are not equipped to navigate. Without the assistance of appropriately experienced and educated advisers the average person cannot capitalise on the significant wealth

creation opportunity that is superannuation. This not only leaves the individual in a less than optimal position but creates a future economic burden for society as whole.

The Australian superannuation framework provides a unique opportunity for advisers to reach and educate a significant proportion of the Australian working population around the benefits of superannuation. Reducing the ability of advisers to work closely with employers and members is retrograde to initiatives undertaken such as the “National Financial Literacy Strategy”.

This service can efficiently provide low cost general advice, advice most Australians can profit from without the need to undertake relatively expensive personal advice. It provides individuals with information that allows them to understand the environment they are in, identify appropriate goals, take corrective action where required and chart a course to financial independence.

Research has shown financial advice improves peoples position both from a financial and wellbeing perspective. Much of the legislation and regulation introduced previously would result in significantly reduced numbers of financial advisers in the workplace provided valuable education to working Australians.

Group Insurance

The proposed legislation makes the payment of insurance commission from MySuper impossible. It appears the payment of commissions from “Choice” investments is only possible if personal advice is given. Even if this is widened to include advice to the employer, it would include very few members.

General advice, ongoing monitoring and claims support are crucial components to maintaining member benefits. Superannuation is unfortunately perceived to be solely about investments. However insurance is a critical component; so critical that it can be the trigger to review and replace a provider when insurance benefits diminish e.g. ANZ Smart Choice reduced offer, Australian Super significant premium increases. As advisers to corporate plans we are constantly fighting for our clients / members to have adequate cover at competitive pricing. On numerous occasions we have successfully fought for a claim to be paid after initially being declined.

As there is no up-front commission on group insurance, there is no incentive for advisers to churn. If the commission is effectively reduced to a negligible amount, it will create incentives to recommend up front commission paying stand-alone insurance, creating distortions in the market that could result in increased group rates via reduced participation and members paying more for cover via losing the tax advantaged premiums.

The Australian population is significantly underinsured. Eliminating commissions from group insurance will dramatically reduce access to suitably qualified advisers who promote the advantages of group insurance inside superannuation as a tax effective, cash flow neutral solution to fund their wealth protection strategies.

Transition to MySuper

There are still fundamental issues that may result in members being disadvantaged during the transition to MySuper.

MySuper has not necessarily resulted in lower fees for members. In larger corporate plans, advisers working in the best interests of the member are obliged to recommend leaving an employer plan as personal wholesale superannuation accounts are now cheaper. This can significantly reduce the plan balance as those members with larger balances are enticed to roll over their balance, resulting in fee increases.

Enforced transition to MySuper investments can leave people invested inappropriately. Often the default investment prior to MySuper was set for the demographic of the plan. The MySuper compliant investment has in many cases automatically allocated members to more conservative investments. Providers, understandably sensitive to criticism of negative returns, have created investments that tend to be more conservative, especially for members 45 years of age and over. This will lead to diminished outcomes for many in retirement.

Some product providers believe that their sole strategy needs to be based on reduced fees. In this situation they have reduced services. These reduced services result in limited investment options, reduced automatic acceptance insurance and service.

Conclusion

I believe removing general advice from “conflicted remuneration” and allowing commissions to be paid from group insurance policies within MySuper products will result in the ongoing support of working Australians by suitably qualified and experienced advisers. This support, provided cost effectively to members, will enhance financial outcomes for many Australians and the general wealth of our nation. It will also add to sustaining a healthy level of competition, contributing to pressure on providers to innovate and improve services while at the same time continuing to exert downward pressure on fees.

I thank you for consideration of these issues and can be contacted on 02 9363 2900 if you would like to discuss any of these items further.

Regards

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