

Submission to Financial Services Inquiry on Draft Terms of Reference

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Time is a factor in all planning. Increasing community longevity and the increase and variability of personal longevity are major factors to be taken account of in the positioning of the financial system to meet Australia's evolving needs and support Australia's economic growth.

The recent Productivity Commission research paper 'An Ageing Australia: Preparing for the Future' focuses on the effects of increasing community longevity on economic output and the resulting implications for government budgets. It illustrates the far-reaching effects of increasing longevity on the financial welfare of governments and individuals.

Individuals rely on the financial system to encompass all major relevant issues in its position and governance. The importance of promulgating awareness of and of taking account of increasing longevity is one such issue.

Longevity risk sits alongside financial risk as both an opportunity and a threat to the health of Australia's financial system. It should be recognized as such in the Inquiry.

Recommendation

Recognition could take place within several existing elements of the Terms of Reference. The additions below would achieve this (made in *blue italics*):

1. The Inquiry will report on the consequences of developments in the Australian financial system since the 1997 Financial System Inquiry and the global financial crisis *and the ongoing increase in life expectancies*, including implications for:

1.3 The current cost, quality, safety and availability of financial services, products and capital for all end users

etc.

2. The Inquiry will refresh the philosophy, principles and objectives underpinning the development of a well-functioning financial system, including:

2.1 Balancing competition, innovation and efficiency, with stability and consumer protection;

2.2 How financial risk is allocated and systemic risk is managed;

2.3 *How longevity risk is managed*

3. The Inquiry will identify and consider the emerging opportunities and challenges that are likely to drive further change in the financial system, including:

3.1 The role and impact of new technologies, market innovations and changing consumer preferences and demography, *including the implications of increasing longevity;*

4. The Inquiry will recommend policy options that:

4.4 Promote the importance of longevity awareness as a factor in the decisions by individuals and institutions in the efficient and effective evolution of the financial sector.