Submission by Empirical Capital to the Australian Governments "Financial System Inquiry"

To: The Inquiry Panel Chairman,
Mr David Murray AO.

Submission to fsi@fsi.gov.au
Financial System Inquiry
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Submitted by

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1. EXPERIENCE SUMMARY

To understand the present banking and financial system, it is important to be familiar with its history. This submission brings with it, unique customer insights and understandings gained over two careers, one as a "banker" working for over 20 years in domestic and international banking across many different roles (the last being with the Commonwealth Bank of Australia from 2003 to 2012 where I was initially was tasked with designing the skills and training package of the Financial Services Reform agenda for the then "Institutional and Business Services" (IBS) division of the bank and finally ending up as Head of Strategy (Service and Sales) Regional and Agribusiness Banking in Business and Private Banking). My academic career involved working in the faculties of business, social sciences, mathematics and economics.

I was also inaugural Executive Chair of the Agribusiness Council of Australia (ACA) and was tasked with defragmenting the agricultural voice and getting this fledgling organisation to launch. This was achieved in the main committee room at Parliament House Canberra, on the 20th March last year amongst many ambassadorial members of our G20 and APEC partners, politicians and industry leaders

Empirical Capital was set up following the launch of the ACA to find strategies, solutions and actions so that the four core objectives identified by the industry as being of most importance and urgent, could be implemented. They were:

1. Finding a solution for the lack of liquidity for the agricultural industry.
2. Finding an agricultural and agribusiness education solution.
3. Rewriting the agricultural narrative to improve the image of farming, agriculture and the business of agriculture.
4. Finding a sustainable solution through an inclusive whole of industry diversity approach.

Additional to the above, I have continued to inform myself of the concerns and issues of the economy and the banking and finance industry by presenting at conferences, attending industry events and forums as well as making contributions, submissions and presentations to the many industry events, some of which are included below:

- Invited industry representative (at request of Chair of the Parliamentary Joint Committee on Corporations and Financial Services) , "*Inquiry Into The Operation Of Australia's Family Business Sector*"

- Invited industry representative (at request of Chair of the Education, Employment and Workplace Relations References Committee), "*Inquiry into Higher education and skills training to support agriculture and agribusiness in Australia*.

- Invited industry representative (at request of the former Minister of Agriculture) "*Agricultural Finance Forum*" by the Department of Agriculture.

- Invited industry representative (at request of the Chair of the Education and Training Committee), "*Inquiry into Agricultural Education and Training in Victoria*"

- Invited as a speaker and a delegate (2014) (at request of Director General), Food and Agriculture Organisation, (FAO) to launch of the "2014 International Year of Family Farming" (IYFF) Global Forum and Expo - BUDAPEST, HUNGARY and to speak on "The *three dimensions of sustainability – harmonizing the social, environmental and economic aspects*" and the "*Role of Science, Research, Innovation and Education*" in sustainability"

- Invited industry representative (at request of the NSW Department of Education and Communities) on the industry roundtable "*Independent Review into Agricultural Education and Training in New South Wales*".

- Invited by the Australian Bureau of Statistics (ABS) and the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) as an industry representative to the "National Agricultural Statistics Review (NASR) Stakeholder Forum"

- Keynote speaker (2013) (at the request of the High Commissioner of India), Regional Pravasi Bharatiya Divas Convention, Sydney Convention and Exhibition Centre: "*Bilateral Business Opportunities in Primary commodities - Australia's experience in developing the agri-business sector*"

- Invited speaker, University of Adelaide, Waite Research Institute, (SA) "*Every Australian child should be taught agriculture at school*". (Debate at the Waite)

- Worked in partnership with the Primary Industry Centre for Science Education (PICSE), Business Higher Education Round Table (B-HERT) and AgriFood Skills Australia to conduct an Education Industry Round Table (including a youth forum) with key findings presented to Hon. Sid Sidebottom, Parliamentary Secretary for Agriculture, Fisheries and Forestry.

- Invited as a keynote speaker to present at the 7th annual Skilling Australia and Workforce Participation Summit (NSW) on "Graduate recruitment – overview of current graduate recruitments as an indicator of skills availability"

- Invited as a delegate and panel member to the roundtable discussion at the 2nd Regional Tertiary Education Conference (QLD) on "Agricultural and Agribusiness skilling and the role of the regional tertiary sector"

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2. EXECUTIVE SUMMARY

Structural reform is the one constant of change that has occurred in the Banking and Financial System especially since the Napier Royal Commission into the Monetary and Banking System following the "Great Depression" in the 1930's. The "catalyst for change", in what could be considered the modern world of financial institutions has to be the Campbell report which started in 1979 and this report along with the Martin Review, (1984) and the Wallis Report (1996) have given us the system we have today, always evolving, adapting and responding to domestic and international influences.

So, it is very pleasing that there is widespread interest (280 submissions) from many different, informed and varied sources and that the objectives and the "Terms of Reference" (TOR) for this inquiry are so extensive.

It is imperative that we as a nation focus on the impacts and affects (on all stakeholders) by advancing the efficiency, capacity, flexibility, prudential controls, confidence stability and competitiveness of Australia's financial system.

I think this can be best illustrated through a worked example as follows:

Under the two Observations noted below, there is a need to note that in the current low interest rate environment, the risk of an adverse intergenerational impact on younger people in the workforce, those building for retirement and those that are retirees Has been building over the past few years, and will continue to build until such time as interest rates commence their upwards journey again.

Observation – 7 If allowed to continue, growth in direct leverage by superannuation funds, although embryonic, may create vulnerabilities for the superannuation and financial systems.
Observation – 21 The retirement phase of superannuation is underdeveloped and does not meet the risk management needs of many retirees.

The points are as follows:

Prior to interest rates entering what may be described as a "low interest rate zone", there was a certain level of risk that those highly leveraged investors that sit in the each of the above three generations were exposed to. The classic example would be the housing loan sector.

As interest rates have tracked down the impact on each of these groups of people has been:

For Younger People –

Generally the ability to borrow and size of loans have increased and therefore the repayment amounts for the people in this category, has also increased. The impact is that, as a generation of people, they are more personally leveraged than they were before interest rates entered this "low interest rate zone".

For those building for retirement & are retirees –

Generally have seen their returns from lower risk investments such as cash and fixed interest diminish to the point that some part of their savings have been moved into more riskier categories such as Property & Equities. The low interest rates have not been attractive enough to these groups of people and they too have increased their leverage into these markets compared with what they may have done if interest rates had not decreased to where they are today.

So like the above "younger people" category these two generations of people are now similarly more personally leveraged than they were before interest rates entered this "low interest rate zone".

One may well ask. Why is it that each of these three generations of borrowers can under existing regulations leverage themselves to the hilt without any mandatory financial advice being provided as to the riskiness of their endeavours?

Without doubt the level of riskiness of investors to adverse movements in the property and equity markets has been silently growing during the course of the last few years and Banks have been taking advantage of the environment that they find themselves in to improve their margins by:

- Providing for balance sheet growth by sourcing low cost wholesale funding typically from overseas
- Indirectly pushing investors out of traditional cash and fixed interest investments by decreasing interest rates on these products via out of cycle interest rate decreases, (e.g. this year term deposit rates have been silently falling) and have had little to no publicity around this, and
- Decreasing housing loan rates, some home owners and property investors, including SMSF's alike, can borrow increasingly larger amounts.

Therefore there has been and continues to be, increasing riskiness in the property market (and equities market) as the low interest rate zone continues. This potential impact on each of these three generations of people is progressively becoming worse and worse the longer that Australia remains in this zone, with the impact when interest rates do rise, potentially becoming catastrophic.

This may tear at the heart of the Australian economy, potentially impacting the stability of the financial system, leaving consumers exposed without any means of protection and adversely impacting superannuants. The question now becomes; What part will Banks and Financial Advisors as beneficiaries during the entire period that we have been in, be held accountable for the losses that three generations of people may personally experience and the impact this will in turn have on the stability of Australian economy?

But the role of industry must be a proactive one, because it is this "low interest rate" environment that will cause the greatest angst and hurt to all stakeholders especially those young and those retirees (or nearing retirement) who are exposed via debt, to a rising interest rate market.

As mentioned above, we have seen changes in the way people invest funds. Gone are the days where bank interest or even fixed deposits returns were sufficient. People today (especially retirees) are chasing higher returns through property and higher return securities like equities and the banks are more than willing to satisfy the demand.

But where is the accountability once the transaction is done. Where is the focus by the bankers, the advisors and the leaders, it is certainly not on existing customers (unless they can be grown organically) it is refocused on the next deal, the next product because that is what drives their performance, remuneration and income.

This has to change otherwise when the next "correction" or extreme event happens, when the US gets a sniffle, the rest of the world will most surely catch the flu and Australia's financial system and most vulnerable will be the most exposed of all.

So the responsibility of the Banking and Finance industry goes beyond the mere selling of goods and services it boils down to good old fashioned "customer service" and all that it entails. It goes much wider and deeper than this. The banking and finance industry is an integral part of the wider economy and needs to manage and mitigate systematic risk if it is to be sustainable and if we as a nation, are to grow and prosper.

It is also in a powerful privileged position in our society and with this privilege, comes great responsibility. This social, moral and ethical imperative means that as an industry it is obligatory that "arms length" is not an option, they have a responsibility to inform customers of their exposure and risk on an ongoing basis. And the industry must bear some of the blame when events occur which should, could or might have been foreseen. They can influence all industry sectors, individuals and governments through its oligopoly market power and this must be exercised within expectations, with honour and with integrity. If this doesn't happen then it is the responsibility of government to ensure the people of Australia are protected.

If this panel adopts only one overarching **KEY RECOMMENDATION** then I urge you to consider:

Building the Education and Communication strategy around the recommendations, not the other way around.

The skills, knowledge, competence and understanding of the panel members is self evident, the passion, suggestions and recommendations contained in the 280 submissions to date also reflect this expertise. But whatever the final report's recommendations are, its legacy will be not be as effective if we don't get the embeddable education and communication skills training solution right.

It was done before under FSR (by the writer of this paper) and it can be achieved again.

The failure to effectively train, communicate and embed change has always been a key driver of failure with any organisational, industry wide, national transformational, operational and cultural change initiative. Education and communication is invariably thought of "later" as an enabler rather than the real driver of change. (Please see the transcript of my question at the

Financial System Inquiry – Sydney Public Forum, Wednesday 20 August 2014, with Chair Mr David Murray AO, Ms Carolyn Hewson AO and Mr Craig Dunn).

This must also not be done in isolation, it must be done in partnership and with full cooperation, coordination and collaboration between our four key stakeholders who are:

1. the customers, (without whom there is no commerce)
2. the government (at all levels), (without whom there are no rules, policies, regulations or laws)
3. industry. (across all sectors) and
4. the financial institutions themselves, (if they wish to be sustainable they must consider and address all interests).

So, this submissions ***"other"*** options, recommendations and solutions will cover off, from a "Banking and Finance Industry & Government/Regulators" (7 Recommendations) stakeholder perspective, the "Banking and Finance Industry" (12 Recommendations) stakeholder perspective as well as from the Government/Regulators perspective. (6 Recommendations) and are contained at the end of this submission.

The body contains as requested, comments on the 28 specific "observations" (contained in the executive summary in the interim report) relating to each issue, from each chapter. Whilst some observations will be supported others will be contested, but always with the intention of linking into the terms of reference (TOR) and assisting the panel in preparing its final report.

I have provided appropriate pragmatic empirical comment and evidence where it is stated that:

"The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives"

But firmly believe these "*costs, benefits and trade-offs"* must be primarily borne by industry with rigorous, relevant and collaborative cooperation and oversight between government officials, agencies and authorities. (In fact all stakeholders)

As part of my recommendations, this submission will also attempt to prioritise important and urgent issues which this panel, the banking and finance industry and the government need to address and hopefully place these on the agenda for a sustainable, efficient and affective Financial System which meets the access and equity needs of all stakeholders.

My fundamental belief is that there must be a separation of roles and responsibilities between industry and government and that these lines must not be blurred. It is the governments function to ensure that the "individual" and "national" good is facilitated and protected at all times and it is the responsibility of industry to ensure they operate according to law and in the best social, environmental and economic well being and interest.

So whilst I am not a big fan of intervention by government, rather allowing industry and market forces to prevail, where the "public interest" at stake, it is not only justified, but obligatory given how the industry has evolved, where confidence is now positioned on the domestic and global stage and where it might be, given the low interest rate environment we now find ourselves in.

In making recommendations in this submission and suggesting possible solutions, my hope is that the panel will gain a unique perspective and insight, so that maximum benefits can be achieved for all stakeholders, now and for generations to come and that it will be through effective education, training and communication, that they are able to make a difference.

NOTE:

So there is no overlap or conflict, I urge the panel to speak with the Chair of the "Joint Committee on Corporations and Financial Services - Inquiry into Proposals to Lift the Professional, Ethical and Education Standards in the Financial Industry" Senator David Fawcett.

Their TOR includes:

1. **the adequacy of current qualifications required by financial advisers;**
2. **the implications, including implications for competition and the cost of regulation for industry participants of the financial advice sector being required to adopt:**
   a. **professional standards or rules of professional conduct which would govern the professional and ethical behaviour of financial advisers; and**
   b. **professional regulation of such standards or rules; and**
3. **the recognition of professional bodies by ASIC.**

Please note:
I will also be providing a submission to this joint committee and will be addressing their specific TOR's. I believe a solution for one might contribute to a solution for both.

3. COMMENTS ON OBSERVATIONS AS WELL AS VIEWS ON THE POLICY OPTIONS

Observation - 1
The banking sector is competitive, albeit concentrated. The application of capital requirements is not competitively neutral. Banks that use internal ratings-based (IRB) risk weights have lower risk weights for mortgage lending than smaller authorised deposit-taking institutions (ADIs) that use standardised risk weights, giving the IRB banks a cost advantage.

Comment:

Banks are able to competitively position themselves to allow profit maximisation. Some are able to use IRB therefore giving themselves a comparative and a competitive advantage in terms of capability and capacity. Those ADI's who use "standardised risk weights" are still able to compete effectively through a range of strategic initiatives and superior value and differentiated product propositions. The rise in number and diversity of financial institutions in Australia is testament that the right service approach (reliability, relationship and responsiveness) regardless of price alone is a great leveller when it comes to competition.

The inquiries comment that the banking sector is competitive is partially true. There can never be true competition without a "free market system". The banking and finance industry whilst less oligopolistic than it once was with the deregulation of the financial system and more "players" (from overseas) it still continues to exhibit non competitive behaviour through consolidation within the industry over the last 30 years.

Regarding "Net Interest Margins", (i.e. gross profit margin plus risk capital charge (which is Target Equity x Cost of Capital) the banking sector risk weights their assets (loans) so that risk is mitigated (but never fully eliminated). If you take industries like Agriculture where those participants have a risk rating individually and by industry, the overall credit risk rating which should but does not bear a strong correlation to the probability of default or the loss given default. It is the inability of the banking sector to adequately consider or risk rate for things like "food security", food quality" seasonality, importance of soil, water, industry knowledge, location, experience as well as the impacts and likely affects of climate variability on the industry, domestic and international cyclical components and the major stakeholders in it and their "conservative approach to "risk" which means some industries, like agriculture are negatively impacted and unable to access the levels of liquidity which is readily available to other sectors which are more "vanilla". This impacts industries which are largely export oriented, like agriculture so that they are less able to effectively compete on the world stage.

NIM's were not overly adversely impacted due to the GFC and a number of international regulatory reforms were introduced which improved stability of banking system but which also increased wholesale funding costs which continued to increase on a rolling average basis. These were higher costs were mitigated by some of the "players" who were able to pass on additional interest to customers (calling it a cost of capital risk premium, a long term funding expense etc) based overall cost of capital.

RMBS in Australia was never a riskier proposition due to the fundamental difference between Australian RMBS and those parcels of securitised funds in other parts of the world. The risk was never increased but the financial system took advantage of the uncertainty of world financial markets situation to the detriment of the stakeholders (people and businesses who relied on banks and financial institutions for their liquidity, growth and working capital requirements

Over the past two years the cost of funds has declined for those financial institutions who have access to funds overseas. This has meant that NIM's for many products have been steadily increasing. Whilst there has been some acknowledgement through partial interest rate reductions, for the most part a large part of this cost differential has not been passed onto either the wholesale or the retail customer. This has added to the margins banks make, adding considerably to their profit margins.

Banks and financial institutions are in a privileged position in Australia and are able to exert excessive influence on business confidence and economic activity. We have a stable, economic, political and social environment in which they operate. In 2012 the big four made approximately $25Bn in profit and by June 2014 this had risen to $29Bn. ($80M per day in net profit for very little actual losses) The industry must do more because of the unique and privileged position they are in. They must contribute more to build confidence, economic, social and environmental sustainability into their cultures.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

1. No change to current arrangements.
2. Assist ADIs that are not accredited to use IRB models in attaining IRB accreditation, increase minimum IRB risk weights, introduce a tiered system of standardised risk weights, lower standardised risk weights for mortgages or allow smaller ADIs to adopt IRB modelling for mortgages only.
3. Provide direct Government support to the RMBS market, or allow RMBS to be treated as a high-quality liquid asset for the purpose of the liquidity coverage ratio.

Comment:

1. The higher the perceived risk either in PD or LGD the higher the interest rate charged to the end user (the client) As long as an appropriate risk model is applied to the client and the industry (which is extremely difficult to achieve) then a standardized risk weight would be appropriate. The agricultural industry needs a complete overhaul given its influence on the sustainability of the national economy (pre farm gate, on farm and post farm gate activities)

2. The LCR (liquidity coverage ratio) as a liquidity risk monitoring tool is an important part of the Basel accords and this means it assists with the development of a more resilient banking sector. It is this “financial ratio” which determines the level of liquidity in cash or similar instruments so that short-term requirements and obligations are met. This affects and impacts on the ability of the banks to lend out short-term debt. I believe that Australia already has a robust system in place with appropriately tight liquidity controls

3. Using RMBS to offset the liquidity position for the purpose of “adjustment” to the LCR is fraught with danger. Especially given where we and the world are in relation to not only interest rates (historically low and these will not and cannot be maintained) as well as the inflated nature of the residential mortgage market. If we look back, these were some of the causes of the GFC which related to the RMBS market.

Observation- 2
Regulation of credit card and debit card payment schemes is required for competition to lead to more efficient outcomes. However, differences in the structure of payment systems have resulted in systems that perform similar functions being regulated differently, which may not be competitively neutral.

Comment:

Credit Card use uses other people's money and as such a fee for use, should be charged, should it be related to the cost of funds, most definitely yes, is it currently, the answer is NO.

Debit cards on the other hand use a persons or businesses own money and yet the benefit to the bank with their IT systems can and do take full advantage of this fact because they have the use of this money, whilst it is on the debit card. (do they pay a fee to the client for this NO, should they pass back some of the profit from using other people's money? YES

Cost recovery for use is a given however unlinked cost recovery is extensive and with the systems banks have, they do charge excessive and exorbitant fees, which bear little or no relation to the actual costs incurred. Great focus and effort has gone into "Merchant Services" with the advent of more and more powerful and sophisticated IT systems and as such they are a great money spinners for the industry.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Lower interchange fee caps, ban interchange fees, expand interchange fee caps to include payments of similar economic substance, or remove interchange fee caps.
- Cap merchant service fees or cap differences in interchange service fees between small and large merchants.
- Require acquirers to enable merchants to choose which scheme to route transactions through, and provide merchants and customers with real time pricing information regarding interchange fees and merchant service fees.
- Allow schemes to reintroduce 'no surcharge' rules, broaden the ban on 'nosurcharge' rules, or enforce reasonable cost recovery in customer surcharging.

Comment:

It is not fair to ask a financial institution to perform transaction services on a "no cost" recovery basis. However usury or exorbitant fees which bear no link to the actual costs involved must be prohibited or highlighted to allow the client to make an informed decision about who they use, what services cost and what are the benefits are for each charge.
If fees are linked to use, it stands to reason that "economies of scale" come into play for those clients who are big users of bank services. Without getting into the intricacies of fees charged things like a usage limits, (above or below) or a sliding fee is charged, a simple sliding scale, which works when you use more, you pay less, per transaction etc are a way for the banks to maximize revenue any yet still not exert their monopoly/oligopoly power over those stakeholders who are least able to confront or address the inequities.

Banks systems are more than capable of handling variations to any charging regime they wish to implement. It is more a matter of will rather than capacity.

The *Competition* chapter also seeks information on the following topics:

- **Competition in small- and medium-sized enterprise (SME) and personal lending**

    - Competition comes in many forms and guises. Internal, inter-company, inter-region, international, substitute goods, complimentary goods etc The larger an organization is the great the capacity they might have to exert monopoly power. However whilst this can be exerted with the banking and finance industry the question which must be asked is "Should it"?. In the past, those least able to fight back (like the small and medium sized enterprises or even selected industries like agriculture) have been the ones most greatly affected by "profit maximizing enterprises who hold considerable privileged positions within their industry and the economy. They have exerted their power onto those least able to fight back (a bit like the bully in the playground) Theirs is a social responsibility and the banking and finance industry must do what is right for their shareholders but must also have a social conscience when it comes to contributing to a healthy and competitive economy.

- **Vertical integration in the banking sector**

    - Within each stakeholder in the banking industry is the capacity for vertical integration. Is it healthy to diversity from the main business of banking or focus on the core business itself? I believe it would be unhealthy for the banking and finance system to control all aspects of the supply chain as they would then have even greater capacity to exert greater influence over economic activity and therefore abuse of their oligopoly power.

- **Funding Australia's economic activity**
    - By way of example, there is currently a review being undertaken by ABS and ABARES into the collection of information relating to the agricultural sector. They are aware that the industry is more than just agriculture, forestry and fisheries and yet they do not collect data on pre farm gate or post farm gate agricultural activities. If our statistical gathering organisations are unable to scope the wider industry how can our banking and finance system how to be able to effectively rate the industry for risk. Greater allocation of funding would be given to the agricultural industry if its real numbers were known and taken into account when making funding decisions.

Observation - 3
Ongoing access to foreign funding has enabled Australia to sustain higher growth than otherwise would have been the case. The risks associated with Australia's use of foreign funding can be mitigated by having a prudent supervisory and regulatory regime and sound public sector finances.

Comment:

Without doubt Australia has relied heavily on foreign capital and has done so since federation.

The ongoing problem is quantity (is there enough) and allocation (is it going to the right industries). The agricultural industry is a classic case in point. When taken as a whole "The Business of Agriculture" is Australia's and the world's largest industry, it includes farmers, agriculturalists and agribusinesses, it is pre farm gate suppliers to post farm gate processors, all supporting each other and adding to our communities and our economy, not only in regional and rural Australia but in our major cities as well. It is any business who contributes to or benefits from agriculture and one of the largest of these is the banking and finance industry. The majority of the profits made by the banking industry in Australia fall into this definition and come from this sector. The "Business of Agriculture" is at the "keystone" of our economy.

Why is it then, that there is such a "liquidity" drought in the agriculture industry in Australia? It is estimated that there is a $500 billion gap in funding of the agriculture sector which will be needed within the next 35 years, if we are to take advantage of the $1,7 trillion opportunity that the Asian century presents.

There are many reasons for the funding gap shortage, not the least of which is perceived "risk".

It is the inability or reluctance of the domestic (especially superannuation) players to fund domestic requirements. There is currently $1.6Tr in superannuation with the breakdown invested in a diversified way including overseas. This is despite the lower returns and greater risk the rest of the world economies still face with the wash up of the GFC. Coupled together with how agriculture and the players in it are risk rated makes the availability of liquidity scarce. This can be fixed.

Observation - 4
There are structural impediments for small- and medium-sized enterprises to access finance. These impediments include information asymmetries, regulation and taxation.

Comment:

There are many different impediments to sound profitable activity. Access to information, regulation and taxation are only a few of the wider issues and concerns. But regardless of these it is the sustainability drivers for small and medium sized enterprises (the environmental, economic, social.) which are little understood. Financial literacy is a skill which is known and understood by small to medium sized enterprises but it is not necessarily from the perspective of the banking systems rules and regulations.

It is imperative for industry representative bodies with the support of government, to educate and inform these organization how to address their particular issues and build financial literacy and sustainability into their organizations, cultures and operations.

Likewise, RD&E organizations must be funded primarily by industry with government support. They must also start off by owning the IP and outcomes of any IP that they discover and develop and then they must commercialize it and share it with those who have contributed to its existence. The banking system can assist here by providing funding to enhance an idea, concept or initiative, so that commercialisation will lead to job creation, productivity and economic growth.

Regarding "Information Symmetries", the separation of roles is clear, "Lenders lend and borrowers borrow". A borrower is not a banker and as such cannot be expected to know what a bank does or how it does it to any great insightful way. Financial institutions have specific ways of getting the required information to enable them to make informed decisions. What they could and must do better, for the small to medium sized enterprises is to assist them to make better informed decisions.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Facilitate development of a small- and medium-sized enterprise finance database to reduce information asymmetries between lenders and borrowers.

Comment:

Sharing customer (personal as well as financial) information will not be at all palatable to banking finance institutions or the customers. There is enough big brother out there and greater and more ways for data to be collected used and analysed and disseminated would not be in the national interest. This data gathering is part of and a cost to doing business. If an organisation requires information, then they can ask for it from the customer.

Observation - 5
Australia has an established domestic bond market, although a range of regulatory and tax factors have limited its development.

Comment:

The panel suggests that "Traditionally, private non-financial corporations have made relatively little use of the domestic bond market" This is because in the past banks and the banking system has been seen as a "trusted advisor" and held in high regard. Financial advice was the purview of the bank. But, an education approach to allow informed access to the corporate bond market would definitely provide corporates with more funding options and allow investors to better diversify their portfolios and maximise their returns but only if they fully understood the risk reward/relationship.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Allow listed issuers (already subject to continuous disclosure requirements) to issue 'vanilla' bonds directly to retail investors without the need for a prospectus.
- Review the size and scale of corporate 'vanilla' bond offerings that can be made without a prospectus where the offering is limited to 20 people in 12 months up to a value of $2 million, or for offers of up to $10 million with an offer information statement.

Comment:

Providing the onus is on the issuer of the bond to ensure understanding of the particular products features and benefits with the appropriate consequences for breaches then this might be a way to utilise a product such as this.

The tax implications, balance sheet impacts, liquidity of the market itself would all need to be scoped with the default position (for any losses due to non disclosure or inadequate disclosure) staying with the bond issuer.

There would be much work to be done to gauge the efficacy of such a product being available.

There may be better ways such as that suggested by the "Reserve Bank Amendment (Australian Reconstruction and Development Board Bill) 2013" to the Senate Standing Committees on Economics.

Regarding the "tax issues" identified by this inquiry. Tax incentives for investors promote greater investment. (and therefore greater lending by banks) With high rents currently in Australia and low interest rates these encourage higher leveraging (subject to banking and finance rules and regulations) this type of investment and economic activity is focused on the building and construction industry. But with interest rates at historically low levels any upward movement or a change in the trend will affect prices, equity positions, economic activity (and therefore job markets) and confidence once interest rates begin to rise. These impacts will affect not only the banks but all sectors of the economy.

Once the low interest rate environment bubble bursts, then the systematic risk must be managed. Regardless, the industry exposure to housing debt, once rates start to rise, will be immediately passed onto the mortgagees.(as has always been the case in the past)

The issues regarding: Differentiated tax treatment of savings vehicles, Negative gearing and capital gains tax, Dividend imputation, Tax treatment of Venture Capital Limited Partnerships, Tax treatment of superannuation funds, Tax treatment of legacy products, Interest withholding tax (IWT), Goods and Services Tax (GST), The Research and Development (R&D) Tax Incentive Tax treatment of social impact bonds, Tax treatment of managed funds, Tax treatment of offshore banking units (OBUs), Tax treatment of Islamic financing are beyond the scope of this inquiry and should be part of an ongoing inquiry into the Tax System in Australia.

How our economy is funded is and should be of great interest and concern. Please see my submission in support of the Reserve Bank Amendment (Australian Reconstruction and Development Board Bill) 2013 sent in July this year to the Committee Secretariat, Senate Standing Committees on Economics, In my conclusion

I stated as follows (in my conclusion):

"This submission is primarily to highlight the wonderful opportunities which will derive from a focus which builds specific linkages to the existing RBA boards at all levels.

The ARDB will be most beneficial to Australia and particularly for rural and regional Australia if they are able to link the facilitative task, the development task and the reconstruction task to the rural reconstruction and development policy initiatives with clear actions for sustainable solutions

"The opportunity exists to create a unique policy organisation with an aspirational vision which will:

1. ***Build a continuous improvement culture which is "nimble" enough to address seasonal and unplanned for events and natural disasters.***
2. ***Have leaders who coordinate, collaborate and communicate with the people who will be or are likely to be affected by the decisions they make.***
3. ***Put in place a mechanism to address current issues, future challenges as well as meet the needs of the people of Australia.ian***
4. ***Develop policy which will identify and create the linkages to other government and business initiatives.***
5. ***Understand that rural and regional can include urban as well especially as it relates to agribusiness rather than just farming or agriculture.***
6. ***Be truly bipartisan because of the diversity mechanisms which must be put in place to listen to and hear the many industry voices***
7. ***Prioritise the urgent and important and then initiate strategic objectives linked to clear and timely actions***
8. ***ARDB must be a bipartisan organisation board which transcends politics and maintains its independence.***

Our submission to this inquiry admires the contribution that farmers, their families and all those people involved in the industry make each and every day. They are, as an industry the most efficient and productive people underpinning our economic wellbeing and our nation.
Thank you for the opportunity to present to this inquiry, I am happy to explain and contribute in what will be a wonderful opportunity.

As mentioned in the executive summary, the ARDB can become the social safety net which, as a civilised society we would all endorse. It can also provide the environment for economic growth through sound policy for this generation and for generations to come.

History has shown that Governments should not run businesses. But their main function must be to facilitate the effective and efficient operation of business, industry and the economy, in this case it will be more effective through the ARDB and the other two boards of the RBA.

This may entail getting in the way sometimes and sometimes getting out of the way so that ownership and control can go back to where it belongs."

This is one such suggestion the other being the use of Superannuation where there is approximately $1.837 trillion invested in Super as at June 2014 with this number expected to rise to $8.645 trillion within the next 25 years (Source: Treasury, RIM Group and Cooper Review)

Superannuation funds have a major and an increasing role to play in funding for short term and medium to long-term capital formation, which is important for national productivity growth and Australia's economic future.

APRA tells us that the breakdown for the allocation of assets (default strategy) is 26% in Australian shares, 25% in International shares, 6% in international fixed interest, 9% in Australian fixed interest, 8% in cash, 2% in listed property, 7% in unlisted property and 16% in "other assets"

The numbers also tell us that government pensions are the principal source of income for 66% of retirees aged 45+ this is unsustainable given the current tax base. There are also now over 531,742 funds with less than 5 members who have $560.7 billion in total assets. The majority of these would be self managed superannuation funds (SMSF) and represent approximately 30% of all superannuation. If history is any guide, these will need to be managed effectively and efficiently to ensure that the government pensions are not called upon to supplement these SMSF.

If investment allocation could be shifted slightly to be more domestic focussed this could, should and would be sufficient to cover all liquidity needs and future proof Australia for generations to come.

Observation - 6

There is little evidence of strong fee-based competition in the superannuation sector, and operating costs and fees appear high by international standards. This indicates there is scope for greater efficiencies in the superannuation system.

Comment:

Fees charged, costs incurred, bonuses/incentives paid, (short term and long term incentives), key performance indicators and gate openers must be transparent to all stakeholders.

It is clear with the current discussion and debate that activities and behaviours of financial advisors and those working in and for the banking and finance industry are sometimes driven by financial rewards and incentives which are not necessarily linked to the customer's specific needs and wants.

The FSR Act was the culmination of an extensive reform program commenced with Wallis, (the Financial System Inquiry (FSI) who examined the then current regulatory requirements applying to the financial services industry. It was designed to enhance market integrity and unite the regulations which had evolved over time, so that regulatory overlap and inconsistencies could be reduced. It was supposed to give customers a more consistent and informed framework of consumer protection, so that better financial decisions could be made.

By ensuring that there was a single licensing regime for financial sales, advice and dealings in relation to financial products, a consistent and comparable financial product disclosure and a single authorisation procedure for financial exchanges and clearing and settlement facilities meant that once the FSR Bill was implemented then there was supposed to be a competitively neutral regulatory system which benefited participants by providing more uniform regulation, reducing administrative and compliance costs, and removing unnecessary distinctions between products. In addition, it was supposed to give consumers a more consistent framework of consumer protection when making financial decisions.

Financial products covered included securities, derivatives, general and life insurance, superannuation, deposit accounts and means of payment facilities and applied to the activities of existing financial intermediaries such as insurance agents and brokers, securities advisers and dealers, and futures brokers, as well as any other person carrying on a financial services business.

With the benefit of hindsight, it is clear that these standards and supposed benefits are skewed towards the financial services entity and individual. We are finding today that this has not been the case and the Banking and Finance industry has not honoured the ethical, moral or social contract they should have with their customers. Customers today are even more confused and perplexed with overwhelming number of financial products and myriad features and benefits offered. The bond of trust has been pulled very tightly. This has led to the rapid rise in the number of SMSF) where control, openness and transparency regarding fees and costs are the “rule” not the “exception”

To say that “many consumers are not fee sensitive” is ludicrous. The fact that fees charged and returns provided are used to fund the operating costs of superannuation funds means that there are leakages from both which impact and affect the ability of superannuants to maximise their returns and lifestyle when they retire. The internet is full of examples of how fees charged can severely limit the final payout down the track even ASIC’s example is very revealing. A 1.5% reduction in fees provides to a person who is 30 and earns $50,000 pa, with $20,000 in her super already, is able to ensure that there will be $81,000 more in super when they retire at age 65. The super account balance will be $336,000 instead of $255,000. This all assuming that the superfund itself is diligent enough to maximise the returns (avoiding another GFC (or minimising its effects) whist at the same time keeping strict and tight controls over the incentives, wages, costs, expenses etc for 35 years. Looking at the Australian system cost of service for financial advice is charged when a financial analysis is made, and whilst we do have choice, it is the almost 25% of mandatory insurance costs fees which are a major cost for large funds.

I am sure that those people nearing retirement (with a <10 year time horizon) who saw their superannuation “nest egg” reduce substantially during the GFC would be wondering (after having worked their whole lives) how they would cope and survive as they got closer to retirement age. The funds without putting too finer point on them are chasing acceptable growth and returns (in the minds of those further away from retirement and trying to limit the negative perceptions of short term impacts (like the GFC scenario) which would and should have been in the long term a known eventuality, given the historical cyclical nature of financial markets and world cycles.

Additionally, if you use one of the major superannuation companies as an example with over $22 Billion in members funds it cost this fund nearly $800 million to run its operations. This equates to over $1,100 for each and every member, each and every year.

The industry needs to look very closely to the costs they apportion to the people providing their superannuation to them. With comparatively higher costs there is room for the industry to achieve economies of scale and pass on substantial savings. This market failure must be a priority of the regulators.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements and review the effectiveness of the MySuper regime in due course.
- Consider additional mechanisms to MySuper to achieve better results for members, including auctions for default fund status.
- Replace the three-day portability rule:
- With a longer maximum time period or a staged transfer of members' balances between funds, including expanding the regulator's power to extend the maximum time period to the entire industry in times of stress.
- By moving from the current prescription-based approach for portability of superannuation benefits to a principles-based approach.

Comment:

This is a nonsense the liquidity position should be robust enough to handle transfers to and from funds. The IT systems have this capability as do the actuarial abilities of the number crunches. For example when interest rates go up the system immediately passes on the costs, when interest rates go down it can take weeks and sometimes months before the benefits are transferred to the public and the banks customers.

People have the right to be fully informed regarding their superannuation (regardless of how long they have till they retire) not in a reactive way as now happens (because most people don't have the financial knowledge required (and nor should they) it is really up to the institutions like superannuation funds, banks and the whole financial system to have a moral and ethical proactive approach to keep investors informed of any changes and all things which will or could impact and affect their future retirement.

It is not acceptable for any person to get to the end of their working life only to find that short term recent events, circumstances happenings etc have impacted the rest of their lives without their ability to compensate or make up the shortfall. All the while the superannuation companies are skimming the cream off the top with high costs, expenses and fees

Observation - 7

If allowed to continue, growth in direct leverage by superannuation funds, although embryonic, may create vulnerabilities for the superannuation and financial systems.

Comment:

There is a risk if oversight and controls are not strong enough to make sure that "leveraging" by large and smaller SMSF into property and other forms of investments provide the liquidity when required (post retirement) as well as the anticipated returns when the initial investment took place. This leveraging has grown significantly as more and more people (currently 531,742 smaller funds <5) realise that the return they are receiving on the superannuation payments they are making is paltry compare to what they could do themselves. The industry is not receiving value from the so called “Experts" who receive exceptional remuneration and benefits for little more (and in many cases less) than the average person could make if they took control of their own financial retirement

For superannuants to borrow against their superannuation is a move designed to allow SMSF to maximize returns and at the same manage costs, fees and outgoings from their retirement nest egg.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- Restore the general prohibition on direct leverage in superannuation on a prospective basis.

Comment:

Direct leverage in superannuation will impact the industry especially SMSF if interest rate trends change, the property bubble bursts, if poor choices or overleveraging are made with regards to investment type.
The risk in selling up or repossessing to the “reputation” of the lending institution would take time to recover.

Observation - 8
Superannuation policy settings lack of stability, which adds to costs and reduces long-term confidence and trust in the system.

Comment:

The GFC showed the world just how important the banking and financial system is and what happens when greed and short term-ism are the key drivers for decision making.

Australia was in an enviable position with our strict prudential, lending and regulatory controls. The impacts in obtaining funds offshore were felt and this did drive up risk to the system however very little regulatory response was really required domestically because of our historical soundness . The impact of regulation has had many impacts and effects. The right ones provide the surety confidence and support for the system and for individuals in times of stress and crises. The wrong ones if maintained and continually shift, can have the opposite effect.

For example the current weighting for risk in the agricultural space limits liquidity, stifles growth, productivity and economic activity and this has a detrimental effect across the whole economy. The business of agriculture" has known this for generations and banks and financial institutions have apportioned great risk to an industry which by and large is seasonal yes, cyclical yes but riskier" than other industries.

Whilst the comment that “this an opportune time to revisit Australia’s approach to stability and the prudential framework, consumer and conduct regulation, and our regulatory architecture. In light of the GFC experience, the Inquiry will consider the need for any change.”

It is always an "opportune time" There should be an ongoing reassessment approach. It should be fluid and there is a "duty of care" for each of the stakeholders.

Whilst Australia survived mostly unscathed by the GFC, it was due primarily to the conservative nature of the industry. There is must to be still learned from the events over the past 8 years. Some institutions leveraged the GFC like the takeover by the Commonwealth Bank of BankWest. If this inquiry was to ask the Commonwealth Bank if this was good for their balance sheet their answer would be a resounding YES. They picked up an underperforming asset, reduced competition in the pprocess, increased market share, excessively provisioned for a "worse case scenario" and then grew market share and the business from a low point. A very sound business decision for a company which did its due diligence and was rewarded. All off the back of the GFC and poor decision making and poor leadership, management, regulatory and prudential controls offshore.

Observation - 9

During the GFC, significant government actions in a number of countries, including Australia, entrenched perceptions that some institutions are too-big-to-fail. These perceptions can be reduced in Australia by making it more credible to resolve these institutions without Government support.

Comment:

The concept of "too big to fail" is held primarily by the big players in the system. Mums and dads wanted and got confidence that what was occurring overseas would not have an immediate impact on them personally. Subtly it did in the form of loss of superannuation savings and a general imposition of higher interest rates (interest rate premium being applied) tightening of credit and reduction in liquidity in certain sectors and areas.

There is no need to look at the banking and financial system participants as though they will fail. The controls we had in place prior to the GFC held us in good stead during it. Admittedly short term liquidity concerns meant intervention was necessary to restore confidence. But the wholesale or even an individual collapse within the system was never going to happen as we saw with BankWest.(the market itself intervened through the CBA) Government's role in a similar situation would be to facilitate the realignment, takeover, buyout etc of any players in the system who were in distress or might eventually become distressed due to external factors.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Increase the ability to impose losses on creditors of a financial institution in the event of its failure.
- Strengthen regulators' resolution powers for financial institutions, and invest more in pre-planning and pre-positioning for financial failure.
- Further increase capital requirements on the financial institutions considered to be systemically important domestically.
- • Ring-fence critical bank functions, such as retail activities.

Comment:

Commercial decisions should be left to the individual institution what are responsible to their customers and their shareholders.

We don't need more regulation or red tape being imposed on the system. Sometimes the regulations need to set, monitored and responded to when change occurs rather than to attempt to continually try to fix something which is fundamentally sound. (albeit with some problems like the advice mode which is more a failure of the regulators for not being proactive in their observations and controls)

Whatever is decided it needs to be holistic in its approach regardless of state or territory boundaries and can be the template for world best practice.

Observation - 10

A number of jurisdictions have implemented new macroprudential toolkits to assist with managing systemic risks. The effectiveness of these for a country like Australia is not yet well established, and there are significant practical difficulties in using such tools.

Comment:

We saw during the GFC that there was an impact on the banking and financial system (because of overseas events) but that it was a manageable one. Systematic risk (one relating to the entire banking and financial system) is unlikely but not impossible. (remember the "Great Depression")

However with the benefit of hindsight and an understanding of the globalisation effect where diversity of industries and global exposure mitigates but does not eliminate systematic risk we must make decisions which benefit us as an industry and a nation. Regardless our GDP of $1.6 trillion compared to the worlds $70 trillion means we are just a small player on the world stage. (the USA is $15+ trillion and China is $7+ trillion.) The world is looking at ways to ensure that there is less chance of another GFC occurring but there will always be economies around the world who will have impacts on other economies (especially those exposed to trade) it just depends how "exposed" and which sectors are exposed in our economy to those impacted and affected economies, which are either undergoing structural adjustment, realignment, recession or worse still depression..

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Establish a mechanism, such as designation by the relevant Minister on advice from the Reserve Bank of Australia (RBA) or the Council of Financial Regulators (CFR), to adjust the prudential perimeter to apply heightened regulatory and supervisory intensity to institutions or activities that pose systemic risks.
- • Introduce specific macroprudential policy tools.

Comment:
Systematic risk to the banking and financial system cannot be completely avoided but can with the right prudential controls be mitigated and managed. By working in harmony withal stakeholders and understanding how these can be “managed” will allow the impacts and effects to be minimised.

Observation - 11

Australia has implemented some aspects of global prudential frameworks earlier than a number of jurisdictions. It has also used national discretion in defining capital ratios. When combined with other aspects of the prudential framework and calculated on a consistent basis, Australian banks’ capital ratios (common equity tier 1) are around the middle of the range relative to other countries. However, differences such as those in definitions of capital do limit international comparability.

Comment:
History showed that our conservative and proactive approach to the prudential control insulated us (Australia and the Banking and Financial System) from the full effects of the GFC. We need however to revisit how we rate our industries (especially agriculture) so that we get the mix and the balance right for our most important industry. ("The Business of Agriculture") Currently the overly conservative approach for this domestic (but outwardly export focused industry) is stifling investment and growth thereby limiting Australia's ability to compete on the world stage. We have every right to be proud of our approach and efforts in the world stage. It was what was happening around the world (during the GFC) which caused us (Australia) to have a close look at ourselves and we should be proud of what we saw. We can again be proactive in our approach given the uniqueness of our economy and our competitive and comparative advantage when it comes to the food and fibre industries. (Pre, on farm and post farm gate activities) Australia can be a follower or it can show true leadership and show the world how it can and should be done. It would be foolhardy if we followed the world given our strong, secure and sound banking and financial system because history has shown that if that had followed us the world's economies and banking and financial systems would be in far greater shape.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Maintain the current calibration of Australia's prudential framework.
- Calibrate Australia's prudential framework, in aggregate, to be more conservative than the global median. This does not mean that all individual aspects of the framework need to be more conservative.
- Develop public reporting of regulator-endorsed internationally harmonised capital ratios with the specific objective of improving transparency.
- Adopt an approach to calculating prudential ratios with a minimum of national discretion and calibrate system safety through the setting of headline requirements.

Comment:

Yes, Australia's current prudential framework is sound but that could change and we have to be nimble and proactive enough to be aware of internal (domestic and international influences)

We don't have to "Calibrate Australia's prudential framework" but we must be conservative and aware of the effects to our commercial viability in the Macro economy (world) that unnecessary or restrictive regulations can have (we must ensure at least a level playing field)

Transparency and understanding of the reporting of regulator-endorsed internationally harmonised capital ratios is a given.

Minimum standards must be the norm for the industry. Failure to meet these standards must have consequences for the perpetrator. The macro effects could be catastrophic.

Observation - 12

To contribute to the effectiveness of the financial system, sound corporate governance requires clarity of the responsibilities and authority of boards and management. There are differences in the duties and requirements of governing bodies for different types of financial institutions and, within institutions, substantial regulator focus on boards has confused the delineation between the role of the board and that of management.

Comment:

Sound corporate governance is the hallmark of the banking and financial system in Australia (with a few exceptions) The responsibility of board members is very clear and boards should be given clear guidelines to assist them in meeting their legal and operational obligations.

Governing bodies can suggest but not impose unilateral rules and regulations (eg: the code of banking practice) but they can share best practice and develop minimum standards. This is where the governing bodies like the Bankers Association can have greatest impact and effect.

I would like to see the insurer directors and superannuation fund trustees place the interests of policy holders and members ahead of those of shareholders. And industry representative bodies whilst their members are banks and financial institutions their primary focus must be on what is in the best interest of policy holders and members ahead of those of shareholders.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Review prudential requirements on boards to ensure they do not draw boards into operational matters.
- Regulators continue to clarify their expectations on the role of boards.

Comment:

Make prudential requirement clear so that failure to meet requirements can be highlighted and timely reporting given. Boards must still ensure that operational matters do not impinge on good governance and the basic functions of board members.

If the financial system is to meet the needs of all Australian's then "trust" in the powers and abilities of the financial institutions governing bodies' regulations and controls must be sufficient to do this.

The "financial claims scheme" was designed to protect deposits of authorised deposit taking institutions. If controls are in place, then it will only be in exceptional circumstances that the financial claims scheme will be used as a last resort event.

Since "Wallis" it is not only superannuation which has become more compulsory, the participants in the financial system have with the advent of more powerful and capable IT systems and programs, designed products and services which obviate the need for face to face contact or high personal touch point solutions. The contact points now are primarily through telephony, the internet and social media portals. It is in the best interest of the banks and the financial system to distance themselves from low margin, high cost "retail" customers and this practice will continue to grow with the aging population and as "early adopters" of technology, by the younger generations provide impetus and financial incentives to these changes.

This arms length approach has also led to greater opportunities for fraudulent, unscrupulous and unethical people who are able to gain access to those in their mature years who have not been able to keep up with the change or technology.

It is the financial system participants themselves who also contribute to this culture through their remuneration and bonus structure payments. If people are rewarded for selling products which don't meet the needs of the recipient or for using continual changes to laws, policy, circumstances (GFC) or other change drivers as the explanation or for providing selective information then it is the banking and finance organisations who must be held accountable.

We are now just beginning to see how these actions and behaviours destroy confidence and trust in the system as well as the stakeholders (industry and government). Consumers must have confidence that they are not going to be ripped off by their bank or financial institution and if they are there must be avenues in place to address these. After all it is the customer who contributes significantly to the balance sheets of all financial institutions and they need to be protected.

The comment that "Consumers, like other participants, must take responsibility for both the risk and reward of financial decisions" is fine, if the skills and knowledge of the unsophisticated investor (consumer) are sufficient to make informed decisions. It is tantamount to unethical behaviour for the banks and financial institutions to assume knowledge and skills amongst their customers because it has to be the responsibility, both morally and ethically of them to inform the customers to enable them to make fully informed decisions with full disclosure.

Observation - 13

The current disclosure regime produces complex and lengthy documents that often do not enhance consumer understanding of financial products and services, and impose significant costs on industry participants.

Comment:

Before any disclosure regime can be put in place, the first step is to "know your client". This is a four step process. Firstly by classifying the client, secondly by ensuring that full disclosure is undertaken, the third step is the advice component and the last step is the products being sold and who are authorised to advise on these and sell them.

It appears that the financial services reform activities and behaviours undertaken in the early 2000's has not been embedded into culture or corporate governance "business as usual" activities.

The issue of concern here also is the more complex the document the more difficult it is for the individual to make informed decisions regarding their financial future. The intention of the product disclosure statement (PDS), the statement of advice (SOA) and the financial services guide (FSG) was to ensure a process of full disclosure when dealing in financial products. It was the SOA which linked to the needs and requirements of the client.

In my opinion and experience the existing disclosure regime is adequate but poorly administered, implemented and embedded. A more rigorous focus and prioritisation is needed to ensure stakeholders are protected.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Improve the current disclosure requirements using mechanisms to enhance consumer understanding, including layered disclosure, risk profile disclosure and online comparators.
- Remove disclosure requirements that have proven ineffective and facilitate new ways of providing information to consumers, including using technology and electronic delivery.
- Subject product issuers to a range of product design requirements, such as targeted regulation of product features and distribution requirements to promote provision of suitable products to consumers.
- Provide the Australian Securities and Investments Commission (ASIC) with additional product intervention powers and product banning powers.
- Consider a move towards more default products with simple features and fee structures.

Comment:

More rigorous and vigorous adherence to existing rules and regulations until the leaders and the individuals in the industry take it seriously. Accredit them like childcare centres RTO's, doctors layers etc.

An annual review process would ensure currency of existing advice and this regular revisiting would ensure the best advice is always given as situations and circumstance change, (not at an exorbitant fee)

Just because existing disclosure requirements were not done well or ignored doesn't mean that you need to change them. Ensure regulators, banks and financial institutions are doing their job properly and apply severe corporate and individual fines and consequences if they are not adhered to.

The FSG's set out key information about the services licensed organisations are able to provide. I should be the very first document provided when commencing the advice process (to retail classified clients at first meeting) and outlines products, fees and charges, contact details, remuneration, complaints handling requirements etc.

Whilst the PDS is a tool which was introduced by FSRA to communicate formally information about a products features and benefits (the old terms and conditions) to a customer.

Customers are entitled to matching of product or service to need. Not the other way around. At a reasonable cost and a reasonable guarantee that if circumstances change, then those needs need to be addressed. Currently it is skewed in favour of the banks and financial institutions and not in favour of the customer and their ever changing needs (it is a set and forget mentality and as long as the Bank or financial institution is making money they don't want to know). So if the banking and finance industry wishes to be ethical, honest, have integrity and rebuild trust then they need to make certain clients needs are regularly assessed and changes made to ensure matching occurs.

Observation - 14

Affordable, quality financial advice can bring significant benefits for consumers. Improving standards of adviser competence and removing the impact of conflicted remuneration can improve the quality of advice. Comprehensive financial advice can be costly, and there is consumer demand for lower-cost scaled advice.

Comment:

Affordable quality advice must be a minimum standard demanded and expected from all stakeholders.

The industry makes far more out of the consumer than the other way around (and over a longer period) It is not helpful to say that removing "conflicted remuneration" (in all its guises) will improved the "quality of advice" Remembering we have people from all walks of life and experience who are generally "unsophisticated" when it comes to investing in their future.

If acceptable protocols are followed and most financial advice is fairly vanilla (simple) and fees are charged, then these fees should reflect this level of experience, complexity and work. There is also a notion that you have to pay for comprehensive financial advice and that the more you pay then the better advice quality you will receive, this is a “nonsense”. It is the individuals competence which determines quality and capability and as such all must be accredited to the highest standards

It is similar to gaining “trusted advisor” status, there are not “50 shades of grey” one is either trusted or not and consumers put their trust in the advice they receive and must be able to rely 100% on that advice now and into the future. It must be a part of “business as usual” to follow up and follow though in a structured way after the deal is done and the money is handed over

Remuneration has driven advice for some time and it is this cultural norm which leads to the wrong behaviours. Behaviours in banking and finance which drive the notion of “do you want fries with that” do very little to link needs to appropriate products

There needs to be an industry let renaissance with a “code of conduct” which truly reflect the minimum standards of competency expected. Ideally through the Bankers Association and similar to the program I put together for the Commonwealth Bank (to get their organisation compliant prior to their license going live on the 1st December 2003). An advice hot line would be a great start run internally within each institution, but with clear objectives, consistent messages, comprehensive approach which then lead to a sustainable “win win” for all.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Raise minimum education and competency standards for personal advice (including particular standards for more complex products or structures such as Self-managed Superannuation Funds), and introduce a national examination for financial advisers providing personal advice.
- Introduce an enhanced public register of financial advisers (including employee advisers) which includes a record of each adviser’s credentials and current status in the industry, managed either by Government or industry.
- Enhance the Australian Securities and Investments Commission’s power to include banning individuals from managing a financial services business.
- Rename general advice as ‘sales’ or ‘product information’ and mandate that the term ‘advice’ can only be used in relation to personal advice.

Comment:

The accreditation regime for the financial services reform is robust and did ensure that those providing advice were regulated and equipped to do so. Ongoing RG146 requirements must be universally tightened to ensure a minimum standard for initial and ongoing training has the rigor necessary to maintain and raise disclosure standards on an ongoing basis and in an embeddable way.

An “Adviser Accreditation Declaration” (AAD) should be the “norm and must be provided along with the FSG, the PDS. This document would need to be signed off by an accrediting organisation and be updated bi-annually to provide confidence to consumers.

There are penalties (both personally and organisationally) that the Australian Securities and Investments Commission can impose if they so choose. (these must be revisited)

I am not sure that these powers have been used to greatest effect up to this point in time and must now be exercised in the best interest of the consumers, the national interest as well as to highlight those individuals and organisation who are not doing the right thing.

The general advice warning is provided so that a more in depth discussion can be had at a later date.

> **"The information we have provided above relates to the product discussions held with you, we have not completed a full assessment of your needs, objectives or financial circumstances. There is a possibility that the information you have disclosed to us about your needs, objectives or financial circumstances may be incomplete or inaccurate, accordingly, you should assess the appropriateness of our advice for your personal circumstances before acting on it. Please ensure you have received the relevant and current Product Disclosure Statement before making a decision to acquire any particular financial product or service"**

If a person provides advice without being accredited then they are in breach and there are penalties for the individual as well as the financial institution if this occurs.

Changing the name of general advice to 'sales' or 'product information' is known as "factual information" and this can be given regarding a products features and benefits.

The law is very clear about when the above "general advice warning" is to be used as regards "personal advice".

Observation - 15

Technological developments have the potential to reduce insurance pooling. This will reduce premiums for some consumers; however, others will face increased premiums, or be excluded from access to insurance. Underinsurance may occur for a number of reasons, including: personal choice, behavioural biases, affordability, and lack of adequate information or advice on the level of insurance needed.

Comment:

Insurance pooling, if available should be part of the overall solution provided to clients (if appropriate to their needs.) Anything that can reduce the fees and charges though a buying cooperative (due to increased buying power). Should be a "known" and these passed onto the client. I believe that at this point in time this is not the case.

If insurance is a bank requirement for a product or service (lower risk to the bank) then it will be the banks requirements which will determine the level of cover they require. Isn't it then the banks responsibility to "advise" the client. The bank, will be able to suggest cost effective ways to obtain it? Make it part of the FSG or PDS.

The *Consumer outcomes* chapter also seeks information on the following topics:

- **Financial literacy –** Needs to be improved and this must be the responsibility of the financial institution (hopefully with a national approach) because giving advice to people who don't understand it, is unethical, illegal and wrong.
- **Financial advice –** Informed advice is the responsibility of the giver not the receiver of that advice.
- **Disclosure for prospectuses –** There are strict rules associated with the issuance of prospectuses but it is still the responsibility of the issuer to ensure understanding not the receiver of that advice.
- **Levels of underinsurance –** Insurance is a risk mitigation tool and as such adequate financial literacy (of the client) is the responsibility of the financial institution to ensure understanding.
- **Industry self-regulation –** Self regulation is an admirable goal. It has been proven time and time again that self regulation only works with strong leaders and engaged individuals. There needs to be, in the first instance a return to more external regulation to ensure the structures are set up and in place before going to a less regulated environment.
- **Microfinance facilitating access to credit –** Access to credit must be done with the "common sense" hat on meeting all the rules and regulations of ethical and exemplary corporate behaviour as good corporate citizens.
- **Small business lending –** The majority of businesses in Australia are small businesses and they must be supported as appropriate. (see my Hansard evidence and submission to the "Family Business in Australia" inquiry as well as my paper (appendix -1) to the 2014 International Year of Family Farming Global launch and Expo in Budapest Hungary in march 2014)
- **Regulation of managed investment schemes -** Managed investments, if used appropriately are a way to participate in bigger and more complex ventures. Historically in Australia managed investments did not achieve for the investors the returns and results they deserved. That is not to say that if appropriately governed and controlled they could not work in the future.
- **Consumer loss as a result of misconduct –** Consumer loss based on misconduct must be rectified to the full extent of the law with full repatriation of not only loss but opportunity cost loss as well. If individuals are working for a corporate then the penalties must be imposed on both, in the national interest.
- **Product rationalisation of legacy products –** There is a moral and ethical responsibility to ensure that those legacy products continue to be suitable for the current needs and requirements of the individual. An annual review process will determine suitability and then exit strategy if circumstances change which make the "legacy product" obsolete.

The interim report also makes comment on the continual changes to market developments, technological advancements and stakeholder feedback.

Regulation is the reason we not only survived the GFC but prospered as a nation from it. It was the mandated reforms, controls and requirements which were imposed on all players within the system over the past 20 years (during deregulation of the financial system) that ensured we were in a far better position than we would otherwise have been.

Unfortunately the vigour, rigour and structure we placed in getting the industry compliant and reformed was not sustained and that is why we now have a need to revisit what made us so successful and duplicate those activities and behaviours again in light of the ever changing social, environmental and economic dimensions.

The first place to start will be ASIC, which has a pivotal proactive role to play. It is will be great comfort to the industry stakeholders if a strong and vibrant organisation like ASIC can ensure that all stakeholders interests are known, understood and addressed in a timely and comprehensive way.

Observation - 16

The regulatory perimeters could be re-examined in a number of areas to ensure each is targeted appropriately and can capture emerging risks.

Comment:

Not only emerging risk but there is a bit of catch up required here. Past sins must be identified, addressed and solutions found to ensure future confidence. We need to get all the "elephants on the table" and then we can move forward to a sustainable solution.

It would be a brave or foolhardy person who can say they are able to identify and capture emerging risks. Very few of the so called experts predicted the share market crashes which have occurred throughout world history or economic downturns or recessions. So the solution is a regulatory system which is not too onerous, is not too restrictive but one where identifiable signposts are in place to identify early when things need to realigned, adjusted, tightened and when they can be maintained. Timeliness and maintenance are key.

The “Wallis Inquiry’s intensity of promise” is a juggling act to ensure regulation and risk are in partnership, not at odds. But risk, as any banker will tell you, can be mitigated but never eliminated. Regulation is one way to mitigate risk. But individual and organisational culture and behaviour must also be of primary focus. It is the leadership culture of organisations and the behaviour of individuals within them that has highlighted to many, that there is a definite need for immediate change.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Introduce specific refinements to the existing perimeters, including:
  - Prudential regulations — consider the case for prudential versus conduct regulation of superannuation funds.
  - Retail payment systems — consider a simplified and/or graduated framework with clear and transparent thresholds.
  - Conduct regulation — consider the case to extend regulation to fund administrators and technology service providers of sufficient scale, and apply select market integrity rules to securities dealers

Comment:

Regulation must be appropriate and linked to sustainability of the environmental, the social and the economic dimensions.

IT systems are already in place to extract the maximum from all clients. There must however be clear line of sight as to what is being charged and why it is value for money. (in the eye of the customer) Arbitrarily charging for "non value added" goods or services is a continuation of the status quo and will not provide the structural reform necessary to build sustainable solutions

Intelligence sharing between stakeholders via secondments, sort term projects etc, both ways from regulators to institutions and to peak bodies would be a great way to share best practice, develop new ways of looking at and doing things.

This way the industry takes responsibility and the government is able to keep their finger on the pulse of industry with clear appropriate and targeted policy.

Observation - 17
Australia generally has strong, well-regarded regulators, but some areas of possible improvement have been identified to increase independence and accountability.

Comment:

The regulators are definitely independent but this is a "too far away" arms length relationship. You can still be independent but close. The robust accountability measures go both ways. The checks and balances must be for industry and for regulators and for government as well.

They have lost focus with what is happening and therefore what policy and decisions are required with are acceptable and workable to the industry and government. Embeddable accountability can be improved with clear strategies and actions - the big stick approach doesn't work.

There needs to be greater collaboration, cooperation and coordination between industry, regulators and government and in fact all stakeholders.

It is vital that the industry put their hand up for an initiative such as this as it is their well being and sustainability at stake here. They should support, as an industry the regulators like APRA and ASIC and there are various mechanisms available to do this. Traineeships, Secondments, Graduates, supported and funded places and projects etc

Accountability (what, why, who, when, and how) is a two way street. So regulators must be transparent in what these are. Working in collaboration with and not against the banking and financial system must not only be perceived to be happening but actually happening. Confrontational (big brother/sister) relationships rarely work in today's modern society.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- **Move Australian Securities and Investments Commission (ASIC) and Australian Prudential Regulatory Authority (APRA) to a more autonomous budget and funding process.** Give surety and confidence to the regulators get state federal and industry support it benefits all stakeholders especially the customers and the people of Australia.
- **Conduct periodic, legislated independent reviews of the performance and capability of regulators.** Duh, is this not happening now and if not why not where is the management and

leadership and why has accountability not been at the forefront of every activity, action and event.

- **Clarify the metrics for assessing regulatory performance/Enhance the role of Statements of Expectations and Statements of Intent -** Work with industry to identify, quantify and qualify these and prioritise and weight them in order of importance, impact and effect.
- **Replace the efficiency dividend with tailored budget accountability mechanisms.** It would appear that the efficiency dividend is not doing its job as efficiently as it should or could. This has been in place for 25 years and relies on getting leaner and meaner each year because productivity is improving. Well for the regulators that is just ridiculous. That is why industry must take some responsibility for supporting the agencies which have been set up to support them. Accountability, if it can be assigned, qualified and quantified with clear KPI's and deliverables is a given for any and all roles in any organisation. Inability to meet set standards can then be identified early and steps taken to address issues and concerns in a timely way. It would also make the regulators more "commercial" in what they do, how they do it and why they do the things they do.
- **Improve the oversight processes of regulators.** A process of continuous improvement should be the minimum standard as building the relationships within the industry.

Observation - 18

During the GFC and beyond, Australia's regulatory coordination mechanisms have been strong, although there may be room to enhance transparency.

Comment:

If there is one constant in life it is change. Structural and transformational change occurs continuously. It is the education and communication elements which are lacking and therefore transparency, when it comes to ensuring stakeholders are informed and understand. The industry, peak bodies and government need to step up here in this regard. (see first recommendation)

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Consider increasing the role, transparency and external accountability
- mechanisms of the CFR:
    - Formalise the role of the CFR within statute.
    - Increase the CFR membership to include Australian Competition and Consumer Commission, Australian Transaction Reports and Analysis Centre and Australian Taxation Office.
    - Increase the reporting by the CFR.

Comment:

This board can continue to play a role in the coordination of financial regulation and stability issues and its relationships with financial sector regulators like ASIC and APRA as well as the financial system players must be further enhanced and developed. This will further enhance the board's capability and capacity to make timely informed and sound industry and nationwide decisions.

Observation - 19
Regulators' mandates and powers are generally well defined and clear; however, more could be done to emphasise competition matters. In addition, ASIC has a broad mandate, and the civil and administrative penalties available to it are comparatively low in relation to comparable peers internationally.

Comment:

The balancing piece with our regulators with regards t competition and confidence should not be underestimated. The big stick approach can never be a sustainably solution. Admittedly the rules, guidelines, laws, regulations and parameters must be set and known with appropriate penalties handed out for breaches. But the approach should always be to work together collaboratively and as a team proactively before confidence and trust is eroded or destroyed.

This question regarding competition is an ongoing one as the "commercial reality" of decisions is usually taken by the stakeholders. Regulators attempt to understand and work out the consequences. That is why working more closely together, sharing learnings and best practice and all contributing to the problems and the solutions is a more sustainable solution.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Strengthen competition considerations through mechanisms other than amending the regulators' mandates.
- Refine the scope and breadth of ASIC's mandate.
- Review the penalty regime in the Corporations Act.

Comment:

Set the rules (mandate) and work out ways to ensure and measure compliance. Make people and organisations accountable and if they break the rules, provide severe financial and legal consequences. If there are penalties, then make them sufficient to ensure penalties recompense those who are impacted and affected. Make it simple and make it significant.

Observation - 20
To be able to perform their roles effectively in accordance with their legislative mandate, regulators need to be able to attract and retain suitably skilled and experienced staff.

Comment:

Regulators will never be able to compete with industry when it comes to pay and conditions. That is why partnerships and bridges need to be built which gain greater cooperation, coordination and teamwork between stakeholders. Please see response to "Observation 17".

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Review mechanisms to attract and retain staff, including terms and conditions.

Comment:

Please see response contained in "Observation 17"as well as recommendation 7 in recommendations for Banking and Finance Industry & Government/Regulators.

Observation - 21

The retirement phase of superannuation is underdeveloped and does not meet the risk management needs of many retirees.

Comment:

The government though incentives and legislation could ensure the aging population is looked after in their old age. After all, it is they who have contributed to Australia's wealth and wellbeing.

Subsidies for those who have contributed more (engaged longer) would assist, as would access to government benefits and services. (state local and federal)

It is clear that some of those currently nearing retirement age have not had sufficient time to accumulate sufficient funds for long term retirement. Specialist "retirement advisor" categories for those post retirement, should be developed to provide the kind of specialist information. This would alleviate the stress and uncertainty and at the same time take advantage of those financial experts who have the skills and specialist knowledge.

Education is the key (see first recommendation) to finding a long term sustainable solution to this issue. A partial subsidy is a way to reduce drawdown effects and extend limited superannuation for those who have some but not enough for their retirement years.

Governments of all persuasions over many generation have known we had an emerging "aging population problem" and have consistently done little policy planning to address this eventuality.

A head in the sand approach will not address this. We as a nation must immediately start to put a percentage of the revenues collected (state local and federal) into a separate superannuation future fund which will support future generations of Australian's and take the burden off the then present taxpayers. Let it accumulate for five years and then use it to partially offset shortfalls in those whose superannuation is insufficient. (not unfunded retirees)

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

A spectrum of options to achieve the objectives of the retirement income system and position Australia to manage the challenges of having an ageing population:

- Maintain the status quo with improved provision of financial advice and removal of impediments to product development.
- Provide policy incentives to encourage retirees to purchase retirement income products that help manage longevity and other risks.
- Introduce a default option for how individuals take their retirement benefits.
- Mandate the use of particular retirement income products (in full or in part, or for later stages of retirement).

Comment:

The status quo is not working at optimal levels. Ensuring those who give advice do so with the right intention and the right reasons (from the clients perspective) will be a challenge as remuneration and benefits are currently derived from selecting high return products.

Complexity of financial products is only limited by the skills in explaining that products features and benefits by the financial advisor.

Because retirees never really know how much they will need in retirement or how long we will live for will be a difficult initiative to work. Whatever decisions retirees make that should always be informed ones and the industry has a responsibility to ensure this is the case. (Use the "Apple" model to get them all on board)

Mandating the use of particular retirement income products is not the way to go, it smacks of big brother and will alienate more than it will assist.

Observation - 22

There are regulatory and other policy impediments to developing income products with risk management features that could benefit retirees.

Comment:

Lump sums are invariably taken for many reasons not the least of which the fact that "trust" in advisors has been tarnished. It is imperative that financial retirement superannuation products be developed which have features and benefits which reward those who take an income stream over those who take a lump sum,. Make it more beneficial financially and tax wise to access income streams rather than lump sum payments.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Take a more flexible, principles-based approach to determining the eligibility of retirement income products for tax concessions and their treatment by the Age Pension means-tests.
- For product providers, streamline administrative arrangements for assessing the eligibility for tax concessions and Age Pension means-tests treatment of retirement income products.
- Issue longer-dated Government bonds, including inflation-linked bonds, to support the development of retirement income products.

Comment:

Governments should look at the multiplier effect of pensioners spending their retirement income in the economy as this is a benefit to the whole economy in terms of domestic economic activity. The ARDB proposal could be expanded to provide the liquidity to those wishing to get a suitable and sustainable income steam.

I am not a great fan of using the "family home" as a source of retirement income. It is immoral for the government to effectively tax people who have done without during their working lives to build and pay for a home for themselves and their families, only to have it taken back in "chunks". It does not encourage those to be inspired to achieve the "Australian dream" of owning one's own home. It is the continual failure of successive government policy over generations which has brought us to the situation we find ourselves in today. Those who have contributed to society in the past must be allowed to live in peace and security in their retirement with the blessing and support of the government.

Your comments regarding the use of "Technology as a powerful force for change in the financial system, potentially improving efficiency and competition, and benefiting consumers". Depends on many facts not the least is the intergenerational one.

The take-up rate differs amongst different generations. The younger generations are very quick to embrace and take up new technologies and ideas whilst the older generation is less likely to do so (as a general rule).

Access and equity principle apply here to ensure all stakeholders (customers and users of the goods and services) have access to information and products and services which meet their unique needs. This will ensure a greater market share of consumer spending for those able to create unique value and product propositions in the minds of consumers.

Observation -23

Technological innovation is a major driver of efficiency in the financial system and can benefit consumers. Government and regulators need to balance these benefits against the risks, as they seek to manage the flexibility of regulatory frameworks and the regulatory perimeter. Government is also well-positioned to facilitate innovation through coordinated action, regulatory flexibility and forward-looking mechanisms.

Comment:

Government responsibilities must be to ensure that technology is not abused. It is not government's responsibility to provide technology. (other than for their own use and within their own mandated requirements or in collaboration for common goals or objectives) Their role should be to smooth the way forward so that industry can develop, utilise and leverage technology in a timely and affordable way. Reinventing the wheel each time is cost inefficient and wasteful. A cooperative standardised industry solution would be a great start as would a proactive approach to the consequences, impacts and affects of new and emerging technology on all stakeholders.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Amend regulation that specifies using certain technologies with the aim of becoming technology neutral. Amendments should enable electronic service delivery to become the default; however, they should include opt-out provisions to manage access needs for segments of the community.
- Adopt a principle of technology neutrality, for future regulation recognising the need for technology-specific regulation on an exceptions basis. Where technology-specific regulation is required, seek to be technology neutral within that class of technologies.
- Establish a central mechanism or body for monitoring and advising Government on technology and innovation. Consider, for example, a public-private sector collaborative body or changing the mandate of an existing body to include technology and innovation.
- Establish a whole-of-Government technology strategy to enable innovation.

Comment:

A generic, "one size fits all approach" is not in the best interest of the customer. The IT, industry is far too fluid for that to ever occur. The only way to protect the consumer is to have an "opt in" rather than "opt out" approach. This puts the onus on to the financial institution to ensure adequate knowledge and understanding by the customer is acquired. Oversight must remain with the regulators.

The development, use, and implementation of evolving innovations and technologies must be very carefully managed as we have seen in the past abuse has occurred. Having said that, if industry do this either collaboratively or individually then there is great potential for comparative and competitive advantages to accrue to those who invest in RD&E. (domestically and internationally)

If stakeholder collaboration involves government support then benefits could accrue to all. It is clear that support could include incentives and inducements to get industry engaged.

I recently attended an ABS and ABARES Statistical review and what was clear was the investment needed for their own internal IT platforms and systems was not available in the current political environment. An industry wide inclusive, collaborative and coordinated stakeholder approach could achieve far greater results, than from just going it alone, as has happened in the past.

Observation - 24

Access to growing amounts of customer information and new ways of using it have the potential to improve efficiency and competition, and present opportunities to empower consumers. However, evidence indicates these trends heighten privacy and data security risks.

Comment:

We only have to look at what is happening around the world to seeing how data gathering is influencing the way companies make their strategic decisions (e.g. Coles and Woolworths) If generic information provides better, more cost effective, cheaper, more appropriate and innovative goods and services then this is a good thing for the industry and for customers. However, if personal information is used then there must be full transparency due to the potential for this information to be abused.

Governments must place severe penalties on those who use this information without the owner's knowledge or for any other purpose than for which it was collected in the first place without the express written permission of the owner of that information. (The default must be that the information always belongs to the person who provided it not as is now currently the case). Provisions regarding contact, acquiring information, etc could be beefed up to ensure adequate safeguards and sufficient financial penalties and deterrents are in place for breaches.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- Review and assess the new privacy requirements two years after implementation to consider whether the impacts appropriately balance financial system efficiency and privacy protections.
- Review record–keeping and privacy requirements that impact on cross-border information flows and explore options for improving cross-border mutual regulatory recognition in these areas.
- Implement mandatory data breach notifications to affected individuals and the Australian Government agency with relevant responsibility under privacy laws.
- • Communicate to APRA continuing industry support for a principles-based approach to setting cloud computing requirements and the need to consider the benefits of the technology as well as the risks.

Comment:

Data collection must be legislated that it can only be used for the purpose for which it was collected and must remain the property of the owner. If information is used for any other purpose it must have legal signoff. All owner information must be fully accessible if requested. Any breaches must bear the full brunt of the law with adequate compensation and provisions for breaches.

Observation - 25
The financial system's shift to an increasingly online environment heightens cyber security risks and the need to improve digital identity solutions. Government has the ability to facilitate industry coordination and innovation in these areas.

Comment:

The changing way the financial system products and services are accessed and used by customers (intergenerational) has evolved to a mostly non face to face one. This does not mean that bricks and mortar or the personal element is any less significant or important for some people in Australia.

With a proactive industry wide approach to find solutions (shared with the world, at a cost) could make our banking and finance cyber security systems the envy of the world. Getting stakeholders within the banking and financial system would be the way to go (solve for one solve for all) so that development and sharing of information is a procedural event and not an exception one. This is something that industry with government support should be done sooner rather than later.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- Review and update the 2009 Cyber Security Strategy to reflect changes in the threat environment, improve cohesion in policy implementation and progress public–private sector collaboration.
- Develop a national strategy for promoting trusted digital identities, in consultation with financial institutions and other stakeholders.

Comment:

Most of the major players within the industry have invested enormous resources into information technology and security systems. They can be considered cutting edge and some of the best in the world. That does not mean that the industry can take its foot off the accelerator. The industry itself must come up with a strategic plan to ensure this global position is maintained and further enhanced with a coordinated and inclusive approach.

The challenge with security, data capture, collection and application, is the way it is perceived to be used by the financial system, by the customers. This needs to be managed and communicated effectively to all. (please see recommendations for industry and government)

Observation - 26
Although elements of Australia's financial system are internationally integrated, a number of potential impediments have been identified. Financial system developments in the region will require continuing Government engagement to facilitate integration with Asia.

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Comment:

It is a given that government must work with all stakeholders. This is a classic situation where coordination, collaboration and working together would significantly enhance any commercial decisions taken by stakeholders. Ultimately, it is and will be a strategic decision industry take if the benefits outweigh the costs and align with overall objectives. Government engagement is welcomed and necessary at certain times at certain levels, but then they must step back as observers and allow industry to proceed/not proceed.

The Asian Century is on our doorstep and if we as a nation position ourselves properly we can and will take part in the opportunities it will present, especially in the agricultural sector and the issues of food quality and food security.

Observation - 27

Government efforts to promote Australia's policy interests on international standard setting bodies have been successful. Domestic regulatory processes could be improved to better consider international standards and foreign regulation, including processes for collaboration and consultation about international standard implementation, and mutual recognition and equivalence assessment processes.

Comment:

Our contributions to and influence on and involvement with international groups at the government level is very impressive. Unfortunately whilst we have Australian Government, reserve bank, APRA, ASIC CFR and treasury representatives, but no mention of industry representation on these international bodies. Could not the influence Australia exert be enhanced significantly with ongoing industry involvement and input?

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

Improve domestic regulatory process to better consider international standards and foreign regulation — including processes for transparency and consultation about international standard implementation, and mutual recognition and equivalence assessment processes.

The Inquiry seeks further information on the following areas:

- What changes can be made to make implementing international standards more transparent and otherwise improved?
- What improvements could be made to domestic regulatory process to have regard to foreign regulatory developments impacting Australia?
- • Are there priority jurisdictions and activities that might benefit from further mutual recognition or other arrangements? What are the identified costs and benefits that might accrue from such an arrangement?

Comment:

Understand the markets within which we operate and wish to operate. Austrade and consulate officers to take a bigger role. Involvement in international bodies, whose decisions impact us, must be given greater focus and priority. We in Australia can be very proud of how the financial system was not overtly impacted and affected by the GFC as we saw in other countries. It is that level of governance and compliance that the rest of the world should be looking at to protect their own financial system.

Observation - 28
Coordination of Australia's international financial integration could be improved.

Comment:

We would encourage the sharing of world's best practice which ensures understanding, stability and governance is maintained within financial systems around the world. For Australia's well being to be sustainable all stakeholders must ignore self interest for the greater good and be proactive in their attempts to find solutions. This will place Australia in a better position to address any issues in the event of undue negative variability in world confidence. Bigger is not always better if the integrated entity exerts undue domestic market power. International and regional growth would be enhanced through economies of scale via strategic partnerships achieved through financial integration.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Amend the role of an existing coordination body to promote accountability and provide economy-wide advice to Government about Australia's international financial integration.

The Inquiry seeks further information on the following areas:

- Have appropriate elements been put forward for an effective coordination body?

Comment:

There must be an overarching body which provides a single informed message and an "holistic" helicopter perspective representing all stakeholders. Taking the very best elements from the Council of Financial Regulators, the Financial Sector Advisory Council (FSAC), the APEC Business Advisory Council (ABAC) and the Business 20 (B20) would provide an organisation with a single voice that could, should and would speak for all, at all levels both domestically and internationally.

How can inclusive economy wide advice be effective if any one of the key stakeholders is not an integral part of the process? Only by being informed and understanding of the issues can better decisions be made. Governments can and must facilitate and clear the way so that industry can find appropriate domestic and international solutions.

4. SOME FURTHER SUGGESTED RECOMMENDATIONS FOR THIS INQUIRY

The responses in this submission have covered off on the “interim reports” observations and requests for further information. This has been done in an empirical way where “our source of knowledge is gained by hands-on observation or experience” with the education and communication recommendation being the “Keystone”

The banking and finance industry is in a privileged monopoly/oligopoly position in Australian society with capacity to exert enormous market power and control. All stakeholders could, should and must be at the top of their abilities and be the pinnacle of honesty, integrity and trust and what they do must be sustainable and in the “National Interest”

Recommendations - for both the Banking and Finance Industry & Government/Regulators

1. Confidence in our government and our banking and finance industry is paramount to the stability of the financial system. To affect sustainable solutions there needs to be a coordinated national voice with the ability to speak with one united, collaborative and coordinated voice to all stakeholders.
2. Together minimum acceptable standards wrapped up in an aspirational vision and a code of conduct which covers off on all matters of concern and importance must be developed to protect consumers.
3. There must be full industry and government support for this initiative for this person/organisation to take ownership and control of the agreed reform agenda so that this panels final recommendations can be implemented and embed. (Some of the recommendations for the industry could be rolled into the functions of this organisations roles and responsibilities)
4. In conjunction with industry and government, relaunch an industry wide financial service reform (FSR) agenda, (***updated*** version of the financial service reform) with a clear aspirational vision, measurable objectives, mutually agreed upon strategies and action plans for implementation (what, when, how and by whom)
5. This organisation can them be expanded once the objectives, the strategic plan and the actions are in place to ensure ongoing minimum standards are maintained and enhanced, key achievements are known and understood and issues, concerns and options for solution can be expressed, as and when needed
   a) To meet the issues of the “brain drain” in conjunction and ASIC/APRA and Government build industry induction program between industry and government to share knowledge.
6. Create an ongoing taskforce made up of industry, government and stakeholders with broad powers to look at and provide advice on:
   a. taxation,

b. risk,
c. governance,
d. regulations,
e. insurance,
f. roles of stakeholders,
g. stability,
h. technology,
i. RD&E,
j. policy,
k. cyber security,
l. portfolio theory and capital adequacy in the likelihood of an extreme event.

7. To ensure the attraction of the best staff with the best engagement, get bipartisan industry support with industry engagements like secondments, project support, traineeships, scholarships, bursaries, internships etc. This will address the “brain drain” on government and add considerably to their intellectual capital and depth.

Recommendations - for Banking and Finance Industry

1. The development of an industry advice hotline.
2. Taking responsibility and control of industry standards. By maintaining a register of initial training and ongoing accreditation (including the new Advisor Accreditation Declaration “AAD” (see observation 14).
3. Register of product disclosure statement. (PDS).
4. Register of statements of advice (SoA).
5. Register of financial services guide (FSG).
6. In order to wear title of “financial advisor” the industry must ensure rigorous competency and appropriate matching of skills to customers’ needs through the Specialist Retirement Advisor (SRA) and the Advisor Accreditation Declaration (AAD).
7. Develop a communication strategy (in conjunction with government) for all proposed change and a plan for ongoing communications of changes in the future.
8. Ensure industries are risk weighted correctly (especially agriculture) with appropriate default interest rates.
9. Ensure structural change initiatives benefit both the industry and the customer (IT, social media, product development economies of scale etc).
10. Set standards for the collection, use and abuse of information.
11. Industry must begin to look at the way superannuation funds are invested and develop products and services which can address the liquidity issues in our domestic economy.
12. There must be a complete overhaul of the individual and industry risk ratings applied by the banking system (especially agriculture) to ensure appropriate credit risk ratings are applied according to CRR. (loss, given default and probability of default scenarios)

Recommendations - for Government/Regulators

1. Our elected officials must ensure reforms for our banking and finance industry must be from a partisan approach which transcends party politics, political cycles and political agendas.
2. ASIC and APRA are intrinsically important to the wellbeing of our society our economy and the banking and finance industry and there needs to be a new category of advisor called "**Specialist Retirement Advisor"** (SRA) who are trained to focus on "retired" persons only.
3. Part of the government mandate must include the sustainability dimensions (social, economic and environmental) the ethical, moral, social honesty, integrity and trust privilege openness all wrapped up in formalised structural reforms, rules and regulations.
4. Because successive governments have continued to underinvest in our future. This needs to change with the following focuses:
   a. As a nation we must begin to address our aging population and start to put a percentage of the revenues collected (state local and federal) into a superannuation future fund.
   b. As an immediate priority, support must be given to "The inquiry into the Reserve Bank Amendment (Australian Reconstruction and Development Board Bill) 2013) by the "Senate Standing Committees on Economics". This board will be most beneficial to Australia and particularly for rural and regional Australia, as they can ensure sufficient liquidity is made available for development of policy initiatives which have clear actions for sustainable solutions
   c. We must develop a "National Interest Test" (Similar in structure to the FIRB) mechanism for the Banking and Finance Industry with matters referred to an existing or newly formed entity e.g. "Government and Banking Advisory" board". "GBA" This would ensure greater collaboration with stakeholders on the international prudential framework stage to ensure Australia's national interest is enhanced with the advent of any global changes.
   d. The government must tighten up the reporting rules for superannuation companies so ensure, transparency of all costs (direct and indirect), returns and charges. These must have industry comparison tables attached (comparing apples and apples) with penalties and a timeframe for discussion and implementation.
5. We must begin to remove unnecessary "red" tape and ensure the industry is competing on an even basis with the rest of the world.
6. Beef up the fines for breach of standards and abuse of monopoly power (for individuals and organisations).

5. CONCLUSION

This submission is in response to the Australian Governments interim report by David Murray's panel on the "Financial System Inquiry".

I believe I have covered off on the terms of reference and addressed, with my recommendations for stakeholders how consumer right can be protected, how Australia might be able to fund its growth and improve its international competitiveness as well as some of the costs, implications and benefits of different options.

The TOR relating to a well functioning financial system is addressed from the point of view that we have not got it totally right and we must get better, if we are to protect consumers, ensure stability of the financial system and compete sustainably on the domestic and international stage.

The role and impact of opportunities emerging with continual structural change can only be addressed with a proactive holistic education and communication approach, one which is inclusive, collaborative, and apolitical and includes all stakeholders (domestic and international) and whose solutions must focus on the customer.

My recommendations also cover the role our banking and finance industry, governments and their agencies must perform, if they are to deliver on their mandates for the good of all Australian's.

And finally I have addressed through the recommendations governance, compliance and regulation issues, on superannuation, the low interest rate environment and its implications on young, not so young and our more senior workers and retirees, taxation issues, financial products, advice, customer service and how these can impinge on the efficient and effective allocation of capital by the financial system.

This submission is but a perspective and the recommendations contained therein are but one viewpoint based on a hands on "pragmatic and empirical" evidence and with discussions with many experienced and informed bankers

As mentioned in the "executive summary" the hope of this submission it that it will at least generate interest, thought and action leading to a sustainable future for us all and that the final report makes education and communication its primary focus and priority when determining how, when, where and by whom implementation and embedding of the recommendations is achieved.

Thank you for the opportunity to make a contribution to this inquiry and this panel.

6. GLOSSARY

AAD	Advisor Accreditation Declaration
ABAC	APEC Business Advisory Council
ABARES	Australian Bureau of Agricultural Research, Economics and Sciences
ABS	Australian Bureau of Statistics
ADI	Authorised Deposit-taking Institution
AFSL	Australian Financial Service License
APRA	Australian Prudential Regulatory Authority
ARDB	Australian Reconstruction and Development Board
ASIC	Australian Securities and Investments Commission
B20	Business 20 (Business Community) supporting G20 (Government 20)
Bn	Billion
BP&R	Banking Practice and Review
CFR	Council of Financial Regulators
CRR	Credit Risk Rating
EU	European Union
FAO	Food and Agricultural Organisation
FIRB	Foreign Investment Review Board
FSAC	Financial Sector Advisory Council
FSG	Financial Service Guide
FSI	Financial System Inquiry
FSRA	Financial Service Reform Act
GAW	General Advice Warning
GBA	Government and Banking Advisory" board
GFC	Global Financial Crises
GST	Goods and Services Tax
IBS	Institutional and Business Services
IRB	Internal Ratings-Based
IT	Information Technology
IWT	Interest Withholding Tax
IYFF	International Year of Family Farming
LCR	Liquidity Coverage Ratio
LGD	Loss given default
MIS	Management and Information Systems
NIM	Net Interest Margin
OBU	Offshore Banking Unit
PD	Probability of Default
PDS	Product Disclosure Statement
PS146/RG146	FSRA Accreditation
R&D	Research and Development
RBA	Reserve Bank of Australia
RD&E	Research Development and Extension
RMBS	Registered Mortgage Backed Securities
SME	Small to medium enterprise
SMSF	Self Managed Superannuation Fund
SoA	Statement of Advice
SRA	Specialist Retirement Advisor
TOR	Terms of Reference
Tr	Trillion
UN	United Nations

7. CONTACT US

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