



Financial Services Inquiry

AMP Submission to Treasury

March 2015

Contents

1. Summary against key recommendations
2. Introduction
3. The need to save more
4. Good financial advice
5. Retirement incomes
6. Efficiency in the system

Summary Comments on Recommendations

No	Recommendation	AMP Position
2.	Raise the average internal ratings-based (IRB) mortgage risk weight to narrow the difference between average mortgage risk weights for authorised deposit-taking institutions using IRB risk-weight models and those using standardised risk weights	Strongly support
9.	Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.	Support
10.	Introduce a formal competitive process to allocate new default fund members to MySuper products, unless a review by 2020 concludes that the Stronger Super reforms have been effective in significantly improving competition and efficiency in the superannuation system	Do not support
11.	Require superannuation trustees to pre-select a comprehensive income product for members' retirement. The product would commence on the member's instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed.	Support
12.	Provide all employees with the ability to choose the fund into which their Superannuation Guarantee contributions are paid	Strongly support
24.	Better align the interests of financial firms with those of consumers by raising industry standards, enhancing the power to ban individuals from management and ensuring remuneration structures in life insurance and stockbroking do not affect the quality of financial advice	Strongly support
23.	Raise the competency of financial advice providers and introduce an enhanced register of advisers.	Support
37.	Publish retirement income projections on member statements from defined contribution superannuation schemes using Australian Securities and Investments Commission (ASIC) regulatory guidance. Facilitate access to consolidated superannuation information from the Australian Taxation Office to use with ASIC's and superannuation funds' retirement income projection calculators.	Support
43	Introduce a mechanism to facilitate the rationalisation of legacy products in the life insurance and management investment sectors	Support

1 Introduction

This submission is AMP's response to the Financial System Inquiry's Final Report. Our guiding principle is that the financial system exists for the wellbeing of consumers and, as such, any reforms should always be based on the interests of consumers and customers.

Consumer interests must always be put first in the policy debate because this is critical to ensuring confidence in financial institutions and financial advice.

It is important that we have policies which motivate people to **save more**, and work longer so that individuals can have financial freedom – and that means choice – choice of lifestyle, choice of care, choice about working after they enter the drawdown phase of retirement.

We want more Australians to be able to have access to **financial advice** because we believe in the very real difference that high-quality advice can make in people's lives.

Our superannuation system must ensure that citizens are **prosperous in retirement** and can maintain their lifestyle once they stop work. To achieve the prosperity that we desire requires planning and action at two levels: the national level and the personal level. Public policy must be grounded in the twin objectives of what's good for the nation and what's good for the individual.

Key elements of a prosperous nation include: a healthy pool of national savings supporting national investment; future generations unburdened by debt; and lower levels of taxation.

AMP believes that there is increasing clarity in what the superannuation system is endeavouring to achieve and the time is right to reach agreement on the principles for the superannuation system. Any developments focused on enhancing retirement income streams within this system should be made with the aim of providing a sustainable **efficient system** that will deliver the objectives of helping all Australians save for their retirement, while providing protection against longevity risk and other risks, and maximising their retirement income for life.

The government's fiscal contributions to retirement income savings, either directly through pensions or through tax expenditures must be sustainable. It is also fundamentally important to have a society that is financially able to help those that need it, with older citizens enjoying well-funded, comfortable later years.

All of the key stakeholders within the financial services industry need to focus on ensuring that we are working together to manage the consequences of an ageing population.

This submission is structured into four themes highlighted above:

- Need to **save more**
- The need for **good financial advice**
- Development of **retirement incomes** offerings
- **Efficiency** in the system

2. The need to save more

The focus needs to be on how we can deliver the best outcomes for all Australians.

To achieve this it will be critical that we clearly articulate the objectives for the superannuation system which will be a key focus of the upcoming debate on retirement products and taxation.

We believe that the primary objective of the superannuation system should be to ensure adequate retirement savings, and should not be a means of wealth creation beyond this purpose.

Before embarking on any further disruption to the financial services sector, we believe sufficient time should be allowed for the raft of regulatory changes introduced in the past three years (across prudential regulation, consumer protection and superannuation regulation) to be fully implemented and bedded down and for their effectiveness to be assessed.

Policies should motivate people to save more, and work longer so that they can have financial freedom – and that means choice – choice of lifestyle, choice of care, choice about working after they enter the drawdown phase of retirement.

We believe that a clear unambiguous statement of the objectives of superannuation will actively encourage individuals to save more for their retirement.

FSI Recommendation 9

Seek broad political agreement for and enshrine in legislation the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the longer term.

AMP response

AMP supports the goal of setting out a clear objective for the superannuation system.

For too long the system has been the subject of partisan debate, frequent changes to the policy and taxation settings. This has led to a reduced level of confidence in the system from a consumer perspective.

AMP believes that over the years the two major parties have become closer in their views about the system.

There is also increasing clarity in what the superannuation system is endeavouring to achieve and the time is right for the major parties to reach agreement on the principles for the superannuation system.

These objectives should be legislated.

FSI Recommendation 10

Introduce a formal competitive process to allocate new default fund members to MySuper products; unless a review by 2020 concludes that the StrongerSuper reforms have been effective in improving competition and efficiency in the superannuation system

AMP response

As we indicated in our earlier submission, AMP agrees that there is scope for greater efficiencies in the superannuation system, and that these efficiencies will be achieved over time via the MySuper reforms, as well as further moves underway to streamline and reduce the regulatory burden.

We do not believe that introducing a tender process to allocate new default fund members to products is necessary, and will in fact result in unintended consequences that are not in the best interests of the consumer.

We also strongly challenge the assertion in the FSI report that operating costs and fees in Australia are high by international standards. We commissioned Towers Watson to conduct an independent analysis and they concluded that when comparing like with like, there is little evidence that Australian fund costs are materially greater than those of other comparable nations.

AMP believes that the MySuper arrangements are highly competitive and working. There are over 100 approved MySuper funds with a wide diversity of offerings in terms of price, asset allocation and returns.

AMP considers that once all the MySuper arrangements are fully in place and all default superannuation is rolled into a MySuper fund by 1 July 2017, fees will come down further. In these circumstances there would be no need for a tender of the nature described in the final FSI report.

Similarly, AMP believes that in order to enhance competition and drive fees lower, the award system should be opened up, so that employers can select the appropriate default for their circumstances from all APRA approved MySuper funds. Such an arrangement would need to be subject to a strong safeguard to prevent practices that might be detrimental to the consumer interest.

Finally, and as noted further in this document, progressing a framework to facilitate efficient rationalisation of legacy products will also contribute to greater efficiency and cost savings which will ultimately be passed on to the consumer.

FSI recommendation 12

Provide all employees with the ability to choose the fund into which their SG contributions are paid

AMP response

AMP strongly supports this recommendation.

While Choice of fund legislation was introduced in 2004, there remain a significant number of employees that are restricted from choosing the fund to which their contributions are made.

Choice of fund is consistent with our belief that consumer interests must be put first, and that optimal outcomes are achieved through maximising competition.

3. Good Financial Advice

A major advantage of the Australian superannuation system is that it gives people choice – and that’s critically important. Solutions that suit one person will not suit another.

But with choice comes the need for a degree of complexity – which creates the need for financial advice.

Financial advice is not just about product selection – it’s about understanding a client’s life goals, and a process of assessment, budgeting and planning, risk mitigation, asset allocation and selection. That is what high-quality financial advice means.

We need to understand and learn to value the critical role quality financial advice plays in not only enhancing retirement incomes but also managing the key risks retirees face when the time comes for them to live off their super.

AMP is concerned that only around 10% of Australians seek financial advice. We would like to see this number increase because we know that people who seek financial advice obtain better financial outcomes.

Consistent with AMPs existing commitments to raising professionalism in the sector, we believe that there is still more to do and the industry needs to continue to work to improve the professionalism of advice.

AMP has raised the bar on adviser professionalism and reinforced our strong commitment to standing behind the advice we provide. We believe that by making these changes, more people will be comfortable seeking advice and will benefit from advisers’ skills, training and experience.

In the case of AMP, all advisers must reach education standards that mean they are a Certified Financial Planner (CFP), Fellow Chartered Financial Practitioner (FChFP), or hold a Masters in Financial Planning (MFP). New advisers must complete this qualification within five years of joining an AMP licensee. Current advisers have until 31 December 2019 to do so. These qualifications are at a post-graduate level, meaning AMP’s minimum requirements will be the highest in the industry. These education standards also apply to employees providing personal financial advice.

In addition, AMP has established a Customer Advice Review Panel chaired by former ASIC Deputy Chair Belinda Gibson to review any customer complaint about the quality of AMP’s personal advice when a customer is not satisfied with the response he or she has received through AMP’s normal channels. If the panel finds the personal advice was not appropriate when it was given, the customer will be restored to the position he or she would have been in if the appropriate advice had been given.

Our commitment to our customers, customer protection and our desire to offer the highest quality financial advice are three key reasons why we strongly support a vertically integrated model.

A vertically integrated model enables AMP to:

- Invest more in financial advice than any other business
- Train our advisers to higher standards
- Stand behind the advice we provide.

We believe that integrated companies are an effective way to manage supervisory costs as they provide ASIC with a single point of contact for compliance and monitoring. This is more cost-effective than liaising with hundreds of individual and very different financial planning firms.

A comprehensive dispute resolution process is already in place and regularly audited by ASIC, but this requirement only applies to large companies.

While there has been recent debate in the media concerning the merits of a vertically integrated structure, we consider that we need to see the impact of the current legislative changes particularly the best interests duty before we look for further, potentially unnecessary reform.

AMP supports the current regulatory settings which include a number of models in relation to advice, but we who recognise that we need to look at new ways of delivering advice. Ultimately we want more Australians to be able to have access to high-quality financial advice because it achieves demonstrably better financial outcomes for the people who receive it. Choice, and the ability for advisers to choose who they partner with, is also important.

We support industry self-regulation as the best way to achieve high-quality financial advice and the further development of retirement income products. We believe the initiatives AMP launched in 2014 (along with those of other vertically integrated companies), have set the highest professional standards in the industry, demonstrating that self-regulation is effective.

FSI Recommendation 24

Better align the interests of financial firms with those of consumers by raising industry standards, enhancing the power to ban individuals from management and ensuring remuneration structures in life and stockbroking do not affect financial advice.

FSI Recommendation 25

Raise the competency of financial advice providers and introduce an enhanced register of advisers

AMP response

AMP strongly supports both these recommendations.

We believe firms whose business models are centred on the current and future needs of customers, are well positioned to ensure customers' interests are protected and delivered.

This customer commitment extends to every part of a vertically integrated business model, from recruiting new advisers, training them, supporting them, helping protect and grow their own businesses, and standing behind their advice.

It ensures the highest levels of consumer protection are in place and the highest levels of professional practice are maintained.

AMP is committed to lifting the quality of financial advice to ensure more Australians have access to professional advisers who can help them achieve their personal goals.

We strongly support investing in building confidence and trust that advisers offer a professional service, including the easily accessible public register on individual advisers, covering their qualifications. This will enable Australians seeking advice to easily compare and select financial advisers. In turn, this will encourage more Australians to choose financial advice and achieve better outcomes.

4. Retirement Incomes

Retirees face different risks associated with retirement income adequacy, and therefore a one-size-fits-all approach to managing these risks (e.g. a compulsory annuity) is not appropriate.

High-quality advice can help mitigate these risks, except in extreme financial circumstances and at a far lower cost than an actual income stream guarantee for example, from an annuity.

Settings for retirement incomes policy should be designed to provide Australians with an incentive to save enough for retirement to lift themselves out of the age-pension safety net. Policy should also be designed to ensure a level of drawdown in the pension phase which provides an adequate income for individuals over the course of their retirement.

Incentives are also needed on the basis that take-up of comprehensive income products is initially likely to be low without additional government support (and in absence of a true default option) and this could probably best be achieved through the taxation system.

Policy settings should also allow the industry to develop retirement solutions that enable Australians to self-insure for all but extreme tail risks, and allow people to enjoy the maximum possible retirement income under most likely scenarios.

FSI Recommendation 11

Require superannuation trustees to pre-select a comprehensive income product for members' retirement. The product would commence on the member's instruction, or the member may choose to take their benefits in another way. Impediments to product development should be removed.

AMP response

AMP agrees with the above recommendation.

We agree that a comprehensive income product for members' retirement (CIPR) would simplify decisions at retirement and deliver better outcomes for retirees.

AMP supports the following features outlined in the FSI Final Report for CIPRs:

1. That the CIPR would commence on the member's instruction. AMP agrees that no income stream should commence without the member's instruction as retirement involves complex decisions and is often a unique experience for each individual. To commence an income stream, superannuation product providers are likely to require further information from the member including the date of retirement (and therefore when the member would like their income stream to commence), bank account details for the payment of income and instructions about existing insurance arrangements.
2. That the preselected option will be of benefit for disengaged members. By communicating to members throughout their accumulation phase about the CIPR, it would embed the "cradle to grave" approach of the whole superannuation system, with

MySuper defaults followed by an encouraged and pre-selected retirement option. The CIPR will become a more relevant option for those who are disengaged and they will be more likely to choose the pre-selected option. The Trustee's pre-selection should also assist in improving the outcomes for these retirees who may not otherwise have made a choice to commence an income stream with their superannuation savings.

3. That the design of the CIPR could also guide more engaged members by providing a framework for decision making. Engaged members who want to make an active decision (with advice) about how to structure their superannuation savings for retirement would benefit from the context that the CIPR would have provided throughout their accumulation phase, as it will have equipped them with more information to assist in what AMP believes will be a complex but now guided decision.
4. That the minimum features of the CIPR should include consideration of longevity risk management. AMP agrees that the pre-selected option should consider an appropriate level of protection for longevity risk to assist in providing Australians with a retirement income for life and reduce their reliance on the age pension. While there are obvious advantages of the CIPR, a longevity solution won't suit everyone so we believe that there should be no restriction on the type of longevity product to be included in the CIPR, and we also believe that there should be flexibility for the Trustee to vary the preselected option, depending on a member's circumstances. Furthermore, allowing members to choose to take their benefits in another way avoids adverse outcomes for individuals of a fully mandated longevity solution.
5. While the Final Report recognises that some providers may need to partner with other organisations to provide a longevity solution, we consider that any organisation that issues a retirement income product that provides any sort of longevity guarantee, should require a licence to carry on life insurance business, to ensure proper capital support and management of the significant financial and policyholder equity risks that are characteristic of such products.

AMP considers that changes to the retirement income system should be made with the aim of providing a sustainable system that will deliver the objectives of helping all Australians save more for their retirement, while providing protection against longevity and other risks and maximising their retirement income for life.

Impediments to product development

AMP agrees with the FSI recommendation that impediments should be removed to retirement income product development thereby increasing the range of retirement income products that are available. We recognise, however, that if done in isolation this will not be sufficient to build a sustainable retirement income system that will help Australians save more for their retirement and provide a retirement income for life.

AMP believes that the tax and social security rules and legislative restrictions on retirement income products that exist today, including the differences in the requirements for different types of products, for example deeming rates, need to be reviewed and considered in respect of the CIPR recommendation, competition, revenue needs of the Government and the overall objectives of the retirement income system.

FSI Recommendation 37

Publish retirement income projections on member statements from defined contribution superannuation schemes using ASIC regulatory guidance. Facilitate access to consolidated superannuation information from the ATO to use with ASIC's and superannuation funds' retirement income projection calculators.

AMP fully supports this recommendation as the initiative will enhance member engagement and assist individuals to plan for their retirement. This initiative will become increasingly important as member balances grow. It will also enhance financial literacy across the community.

5. Improvements to efficiency

It is vital that policy encourages competition. Competition encourages innovation, broadens consumer choice and drives better outcomes for (retiring) consumers. Public policy and regulation needs to deliver competitive neutrality in the superannuation market.

Competition is vital to achieve the best outcomes for bank consumers. This is why policy and regulation should not deliver competitive advantages to the major banks over their smaller competitors.

When compared against global benchmarks, Australia's existing superannuation system is delivering superior outcomes for people saving for and during retirement. In terms of the return/fee mix, Australia is one of the best performers internationally and provides rates of return that are well above the OECD average.

The current system, including the introduction of MySuper and Stronger Super reforms, has enabled a more competitive environment. This will drive down costs to the customer. These reforms should be given sufficient time to be bedded down and assessed.

FSI recommendation 2

Raise the average internal ratings based (IRB) mortgage risk weight to narrow the difference between average mortgage risk weight s for authorised deposit taking institutions using IRB risk weight models and those using standardised risk weights

AMP response

Some Australian banks hold materially less capital than the Basel III standard requirements, in particular for residential mortgages. While no one can argue that a bank holding less capital for an identical exposure does not have a competitive advantage which limits competition and is ultimately detrimental to customers, investors will likely see reduced capital as adding risk. In Australia, the major banks on the advanced or IRB approach to capital requirements hold less capital for their mortgages than standardised banks. Given the domestic systemic importance of the Australia's four major banks, investors may perceive the lower capital ratios of these banks and a weakness to Australia's banking system as a whole and demand a greater risk premium for all Australian bank, increasing banks' cost of funds, resulting in higher interest rates to customers.

FSI Recommendation 43

Introduce a mechanism to facilitate the rationalisation of legacy products in the life insurance and managed investment sectors.

AMP response:

AMP is supportive of a comprehensive product rationalisation regime that would provide better consumer outcomes by creating greater efficiency in the industry and access to more modern and relevant offers for consumers. The existing mechanism for rationalising

managed investment schemes, life insurance legacy products and other related products or structures is too difficult and expensive. As a result consumers remain in financial products that suffer from a higher cost base, outdated features and carry operational risk from outdated technology and products that are difficult to support. We believe that a more efficient rationalisation mechanism would be able to both deliver:

1. Cost reductions within the industry through a staged rationalisation program, which would result in a more efficient and sustainable industry; and
2. Improved customer outcomes through being moved into modern products with better features.

Although a financial product may be closed and is of low scale, it still needs a broad range of services similar to those provided to an on-sale product, including technology, accounting, audit, disclosure, legal, actuarial, product and tax services as well as being supported by an administration team and front line call centre staff who need to be trained on the particular product. For example, AMP has a number of products with less than 20 customers remaining for which we maintain and support the ongoing proposition.

Continuing to manage bespoke financial products that are highly aged and whose promotion predates the majority of employees' tenure is a significant challenge for most financial services companies. This is both from an operational risk perspective but also in maintaining aged systems that are typically less agile or economical to run and keep updated (including for regulatory change), less able to support a modern service to customers and more challenging to locate appropriately skilled support staff.

Without a change to the existing mechanisms to improve the opportunity to rationalise products, providers will not rationalise products in the overall best interests of consumers. Additionally, consumers would become worse off over time as closed products continue to run off and may become trapped in products with increasing costs and reduced service.

AMP would be keen to work with the government to implement a product rationalisation programme. As we indicated at our earlier submission, a starting point for any reform should be to exempt legacy products, including legacy superannuation products, from further regulatory changes to the greatest extent possible, as most regulatory changes are not designed with legacy products in mind and do not necessarily produce sensitive and meaningful results in legacy products.