



AFA Response to the Royal Commission Recommendations

MEDIA RELEASE

SYDNEY: 7 February 2019 –The Association of Financial Advisers (AFA) recognises the importance of the Royal Commission process and the primary focus upon the delivery of improved consumer outcomes, however objects to a number of the key recommendations relating to financial advice.

AFA Chief Executive Officer, Philip Kewin, said that while restoring trust has been an overriding theme for Banking and Financial Services, the AFA does not accept that an ideological determination to remove all conflicted remuneration should necessarily override all other considerations in the design of the framework for financial advice.

“Access to advice, affordability and efficiency of the provision of advice should also be key considerations,” he said. “We would like to ensure that access to quality financial advice is readily available and not just reserved for the wealthy. The Royal Commission recommendations will only increase the cost of financial advice, when what is really needed are changes to reduce the cost and make it more readily available. The Royal Commission has not put forward a case for why these recommendations will benefit consumers.”

Mr Kewin also highlighted that while the evidence presented at the Royal Commission focused on large institutions, the parties hardest hit by the recommendations are small business financial advisers and mortgage brokers.

“Business valuations for financial advice and mortgage broking small businesses, many of which are family owned and run, will be significantly impacted,” he said. “As a result of recent ongoing reforms and further recommendations from the Royal Commission, many small businesses are now under threat. This also further threatens the accessibility of affordable advice.”

While the AFA welcomes the recommendation that life insurance commissions should remain unchanged in the lead up to the previously announced review by the Australian Securities and Investments Commission (ASIC) in 2021, it rejects the Royal Commission’s clearly expressed preference that they should be further reduced and in fact removed, following this ASIC review, particularly given there was no informed debate on this issue.

“Commissions are the internationally accepted method of remuneration for the provision of financial advice on life insurance, and this model works in the interests of consumers by reducing the cost of obtaining quality life insurance and advice,” Mr Kewin said. “They are a form of remuneration, not an incentive, that pays for far more than just product placement, something we pointed out in several submissions to the Royal Commission.”

Mr Kewin said ASIC has made its views on life insurance commissions clear prior to and throughout their submissions to the Royal Commission. “On the back of this, and the words of the Royal Commission, we are sceptical about whether this review in 2021 will be a genuine consideration of the issue and the best outcome for consumers.

“If the financial advice profession was on trial at the Royal Commission, then financial advisers should have been given the chance to defend themselves. Regrettably the Royal Commission took evidence from large institutions and not the small business sector,” Mr Kewin said.

The AFA responded to each of the relevant Royal Commission Rounds and provided a comprehensive submission in response to the Interim Report, strongly opposing a number of the considered options and highlighting errors in the Interim Report.

“Despite being identified as opposing one of the key measures in the opening statement to the final Policy Round, by Counsel Assisting, we were not given the opportunity to present a defence,” Mr Kewin said. “Further, we were surprised that a number of the errors that our Association pointed out in the Interim Report were repeated in the Final Report.”

The AFA is committed to a genuine process of working through the issues that have emerged as part of the Royal Commission process and finding solutions that deliver both improved outcomes for consumers, but also ensure that financial advice is readily available to all Australians.

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Media Contact

Julie Bennett

64 Media

Mob. 0407 071 121

julie@64media.com.au

www.64media.com.au

About the AFA

The Association of Financial Advisers Limited (AFA) has been the authentic voice on the value of financial advice for over 70 years. Today, the AFA is a vibrant, innovative association, where the underlying driver of policy is the belief that great advice transforms lives. To this end the AFA is striving to achieve the vision of Great Advice for More Australians. The AFA’s ongoing relevance as a professional association is derived from its success in engaging with the major stakeholders in financial advice including advisers, consumers, licensees, product and service providers, and the regulator and government. Culturally the AFA believes in the value of collaboration to create powerful outcomes and this drives how we achieve influence and work towards our vision.