YellowBrickRoad
Wealth Management

How to Encourage Competition in Banking
A Submission to the Australian Senate Economics Committee
December 2010

Yellow Brick Road Wealth Management Pty Ltd
ABN 93 128 650 037
Australian Financial Service Licence No. 323825

EXECUTIVE SUMMARY

Yellow Brick Road understands the key role played by the Major Banks[1] in the Australian economy, including the services that these stable and profitable Banks provide to Australian consumers. However, our view is that in certain markets including consumer home loans and commercial lending, the Major Banks have achieved a position of market dominance which effectively limits competition and choices for borrowers. The market dominance enjoyed by the Major Banks is a side-effect of the Global Financial Crisis (GFC) and policy changes in response to the GFC. Hence, Yellow Brick Road believes that policy changes are required to restore a healthy competitive environment.

In this submission Yellow Brick Road suggests a number of policy measures to redress the balance between the Major Banks and other providers of credit including Regional Banks, Mutuals (credit unions and building societies) and non-bank institutions. The purpose of these suggested measures is not to penalise or inhibit activity by the Major Banks. Rather, these measures are intended to redress the imbalances that are now present, so that stronger competition can provide better solutions for Australian consumers.

The key area where the Major Banks enjoy a more favourable environment than other players is access to well priced funds to support lending. While access to retail and wholesale funding is subject to different pressures, the current environment favours Major Banks access to funding in both the retail and wholesale markets. The retail deposit guarantee was a necessary measure for all Australian Authorised Deposit Taking Institutions (ADIs). However, this environment has favoured retail deposit gathering by the perceived-to-be 'safe-and-secure' Major Banks. Yellow Brick Road's view is that the retail deposit guarantee must be extended for all ADIs, beyond the current expiry in October 2011, but the relative need for the retail deposit guarantee for the Major Banks is declining, and a 'policy nudge' in favour of Regional Banks and Mutuals should be considered to rebalance the market.

In terms of wholesale lending, a key consequence of the GFC has been a reduction in funding for lending through securitisation of Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS). The Government's funding, through the Australian Office of Financial Management (AOFM), of securitisation has been a welcome measure to encourage wholesale funding activities. In this submission Yellow Brick Road provides detailed suggestions on how securitisation of Australian loans can be encouraged, and in our view, this is a necessary condition to restore large scale competition. Yellow Brick Road believes that securitisation can be encouraged by providing transparent disclosure of the quality of underlying assets in securitised loan pools, and that appropriate standardisation of the structure of loan pools will limit risk and encourage liquidity in these assets. In addition, our view is that the long term goal for Australia should be to establish a market in standardised pools of securitised loans.

The quest for greater scale has naturally led to acquisition of regional banks and other entities by Major Banks, and this combined with the pressures from the Global Financial Crisis has caused a 'hollowing out' of the middle tier of lenders and investment platform providers in Australia. Yellow Brick Road does not suggest that any of these acquisitions should be reversed, rather that measures are put in place to encourage a new "middle tier" of financial services providers to develop. Our suggestion is that a new financial services category should be established which can be called 'Australian Financial Institutions' (AFI's) within an appropriate policy framework. The purpose of this new category is to fill the current gap in the market and to provide a more visible alternative to the Major Banks. The suggested requirements to be an AFI are: Net

[1] (ie. Westpac, ANZ, CBA and NAB)

capital of at least A$10M, holding an AFSL to deliver financial advice, an ACL to deliver credit advice and established compliance and risk management functions within the business. The suggested capabilities for AFI's are: to be able to originate assets (loans) for Regional Banks and Mutuals and the ability to coordinate securitisation of pools of loans, within the strict limits suggested for standardised pools of securitised loans.

It may be contended that these medium sized organisations will never achieve, by themselves, the scale and therefore efficiencies of the Major Banks. However, our view is that adoption of standards for servicing and securitisation of loans will allow a community of AFI's and administration providers to achieve scale collectively, rather than individually.

There are still significant challenges in delivering quality financial advice to Australian consumers. A key barrier is the financial literacy of this audience. A potential customer needs to know enough to seek out the right financial solution, rather than just the available one. Yellow Brick Road believes that additional investment in financial education must be made, and that the Australian consumer should be encouraged to seek financial advice by making these services tax deductible. To prevent abuse of such tax deductibility, limits per annum may be required. Providing quality financial advice delivers major benefits by, for example, reducing the need for individuals to rely on government support in retirement.

Investment platforms are a less prominent but still important area of financial services competition. Yellow Brick Road believes that simple changes to current rules for providing platform switching advice and removing unintended consequences of current taxation rules would help reduce the barriers to investors changing investment platforms. Our experience is that many investors are effectively prevented from moving from high fee investment platforms to low fee alternatives, through the cost and compliance effort involved.

In the recent debate concerning banking competition, there have been a number of suggestions made to limit interest rate increases or control the margins enjoyed by the Major Banks. Yellow Brick Road does not support any regulation or control on the retail pricing of financial services, such as preventing lenders from moving rates outside RBA rate changes. Our view is that such ideas are naive and that focusing on regulating pricing will not lead to desirable outcomes. Rather, improved competition will result from increasing the supply of funding (wholesale and retail), removing barriers to switching platforms, and innovation in licensing of medium sized market participants, such as Australian Financial Institutions (AFI's).

TABLE OF CONTENTS

1. Summary of Recommendations

Number	Recommendation
1.	Extend the retail deposit guarantee for Mutuals beyond the current expiry date of October 2011.
2.	Limit future retail deposit guarantees for the Major Banks and their subsidiaries, both in duration and value per deposit account, as their need for this support has declined. The Major Banks need for the wholesale guarantee has declined in similar way, and this support measure should be gradually phased out.
3.	Continue to support securitisation of Australian Home Loans through direct investment facilitated by the AOFM.
4.	Establish an industry standard for disclosure of information concerning marketable pools of Australian mortgages, with Government sponsorship. Use of these standards would be optional, but encouraged.
5.	Establish a minimum quality benchmark for pools of securitised loans. It is suggested that pools of loans meeting the defined standard should be described as Standardised Australian Mortgage Securities (SAMS). Use of these standards would be optional, but encouraged.
6.	Establish an industry standard for credit scoring of applications for Australian mortgages, and require disclosure of the distribution of such credit scores within each pool of SAMS. The suggested term for these standardised credit scores is Standardised Australian Credit Scores (SACS).
7.	Encourage the RBA to offer short term (less than 90 day) repurchase facilities for qualifying pools of Standardised Australian Mortgage Securities (SAMS), at an agreed discount to the face value of these securities.
8.	Establish a new category of financial services providers called an Australian Financial Institution (AFI) which would have the right to coordinate and issue Standardised Australian Mortgage Securities (SAMS).
9.	Issue a licence for a selected party to operate an exchange for trading (and market making) in SAMS. This should occur only when sufficient issues of SAMS have been made to support such a market.
10.	Invest directly in programs to increase the financial literacy of all Australians.
11.	Provide a tax deduction for costs relating to financial advice up to a maximum value per annum.
12.	Mandate portability of clients' investments across investment platforms by making amendments to the current switching rules.
13.	A specific Capital Gains Tax (CGT) exemption should be provided for clients wishing to transition assets from one investment platform to another, as these moves can trigger CGT liabilities when no actual capital gain has occurred.
14.	Introduce a Social Licence Fee for the Major Banks which should vary,

	based on their level of Return on Equity (ROE), and this fee should be used to support the securitisation of Australian loans.

(In the detailed recommendations below, the text which relates directly to these key recommendations is highlighted in blue)

2. The Causes of Reduced Competition

A number of factors have recently reduced the level of competitive activity in Australian Financial Services, especially in home and commercial lending. In Yellow Brick Road's view, the key reasons are:

- The Global Financial Crisis reduced the number of active competitors and limited the available wholesale funding for home and commercial loans
- Acquisition of home loan focused banks and investment platforms by the Major Banks have reduced the number of effective competitors in both these areas. This has led to a 'hollowing out' of middle tier competitors in these markets
- The Government Guarantee for retail deposits held by ADIs has reduced funding for retail mortgage investment schemes by increasing their relative risk profile, compared with Bank or Mutual deposits
- The Government Guarantee for wholesale debt reduced the ability of second tier lenders to borrow on the wholesale market as the guarantee pricing favoured the Major Banks
- Tax advantages of superannuation and the super guarantee mean that retail deposits (which are more likely to be lent to home loan borrowers) may be less favoured in the long term than investment in superannuation. It is acknowledged that recent figures show that retail deposits have increased in the short term, reflecting increased savings levels by consumers
- Investors perceive a lack of transparency in the credit quality of borrowers within pools of mortgage backed securities, and this limits the attractiveness of this investment class
- A lack of liquidity in wholesale Australian Residential Mortgage Securities and Commercial Mortgage Backed Securities limits the attractiveness of these assets to potential investors
- Current rules for advice and taxes relating to switching investment platforms favour the incumbent and often high cost investment platform operators

The detailed suggestions which follow address these issues, and provide policy recommendations to encourage competition.

3. The Yellow Brick Road Proposals

3.1. Retail Deposit Guarantee for Mutuals

Yellow Brick Road's view is that the Mutual sector (Credit Unions and Building Societies) is dependent on the Government guarantee on retail deposits. This measure, which was introduced at the height of the GFC, was effective in preventing 'bank runs' or large scale withdrawal of client funds from institutions which were perceived to be less financially strong.

The current retail deposit guarantee is due to expire in October 2011, and Yellow Brick Road's partner for the funding of Yellow Brick Road branded home loans, Gateway Credit Union, have informed us that already some of their clients are not renewing their 12 month term deposits because of their concerns that the retail deposit guarantee may not be renewed in 2011.

Our view is that a failure to provide early and clear direction to the market that the retail deposit guarantee will be extended, would create a risk of erosion of the deposit base of Mutuals, as clients will move their funds to the perceived safety of the Major Banks. This would limit the ability of Mutuals to fund loans, on or off their balance sheets and constrain their ability to compete.

Hence Yellow Brick Road recommends that the Government extends the retail deposit guarantee for Mutuals beyond the current expiry date of October 2011.

3.2. Retail Deposit Guarantee for Banks

The Major Banks are in a strong financial position. This is indicated by the strong profit results produced by these Banks. The following quotation from a recent study by The Australia Institute illustrates their strength:

> 'The big four banks now control more than 75 per cent of all bank assets and banks account for over 90 per cent of all lending by financial institutions in Australia. This level of concentration has distorted competition, allowing the big banks to reap underlying profits of around $35 billion per year, including $20 billion in 'superprofits' attributable to their market power.'[2]

Yellow Brick Road believes that the retail deposit guarantee was absolutely required at the height of the global financial crisis for all Authorised Deposit Taking Institutions (ADI's) in Australia. The level of fear and uncertainty required swift and decisive action from the Government, and appropriate measures were put in place. However, the environment has now changed and the logic behind an explicit retail deposit guarantee for the Major Banks has been eroded. In a similar way, Yellow Brick Road believes

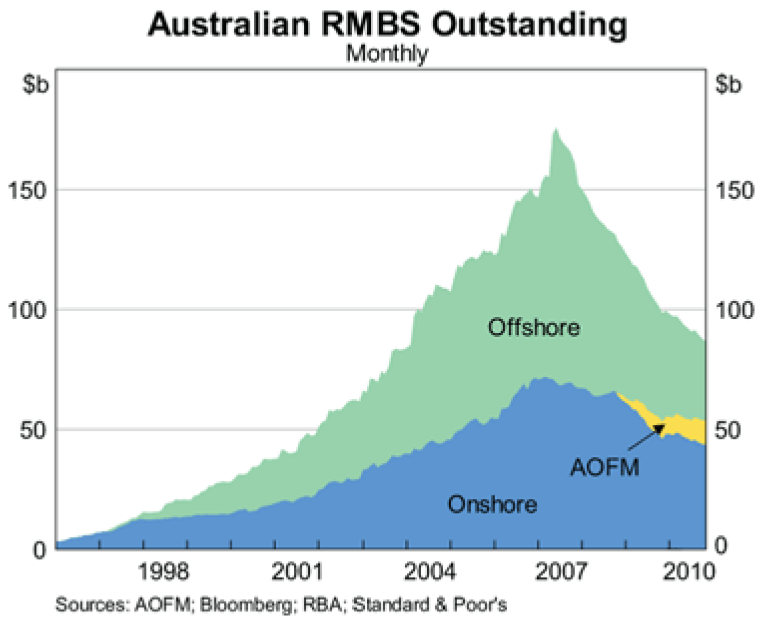
[2] Money and Power - the Case for Better Regulation of Banking, The Australia Institute, Josh Fear et al, page iv.

that the wholesale guarantee is becoming less relevant to the Major Banks, and hence should be phased out in the medium term.

Overall, the remaining independent regional banks such as Bank of Queensland and Bendigo & Adelaide Bank do not enjoy the same financial conditions as the Major Banks, and continuing the retail deposit guarantee and the wholesale guarantee for these institutions makes sense. Hence Yellow Brick Road recommends that the Government should limit future retail deposit guarantees for the Major Banks and their subsidiaries, both in duration and value per deposit account, as their need for this support has declined. The Major Banks need for the wholesale guarantee has declined in a similar way, and this support measure should be gradually phased out.

3.3. Continuing the Role of the Australian Office of Financial Management (AOFM)

The Government's support for securitisation has provided a key source of funding to enhance competition. The Government's support through AOFM for securitisation has amounted to approximately $16B in total public funds invested. Securitisation of Australian mortgages has a long way to go to recover to pre-GFC levels, and the support from AOFM is relatively small scale compared to the extent of the decline in the securitisation market. This is shown clearly in the following graph:



(http://www.rba.gov.au/speeches/2010/sp-ag-301110.html)

Yellow Brick Road supports the continued funding of securitisation through the AOFM, but we do not see this activity as sufficient without other measures to restore securitisation to pre-GFC levels.

Yellow Brick Road recommends that the Government continues to support securitisation of Australian Home Loans through direct investment facilitated by the AOFM.

3.4. Standards for Disclosure Concerning Securitised Loans

A key barrier to increasing the level of securitisation of Australian Residential and Commercial Mortgage Backed Securities is information asymmetry. The parties undertaking the coordination of a securitised issues of mortgage backed securities have access to a wealth of information concerning the individual loans and loan applicants that are part of mortgage pools. Often a potential purchaser has limited information and much of the detail is summarised in totals or average values concerning the mortgage pool, and this can lead to objections to investing in these assets.

Yellow Brick Road believes that the solution to this information asymmetry is standardisation of the disclosure of information concerning pools of securitised mortgages. We believes that such standardisation can provide significant economic benefits, and this is supported by research studies:

> Several detailed econometric studies have established a clear connection at a macroeconomic level between standardisation in the economy, productivity growth and overall economic growth. These studies have been carried out for the UK, Germany, France, Canada and Australia. Estimates vary somewhat from study to study, but overall, the growth of the standards catalogue over recent years may account for between one eighth and one quarter of productivity growth over the period. Some recent developments in the literature also offer a (partial) explanation of these effects on growth and productivity.[3]

It is suggested that to obtain consensus on the specific standards for disclosure about loan pools, an industry forum is established to define an optimum set of disclosure rules. Yellow Brick Road suggests that the disclosures would include, for each mortgage pool:

i. The distribution of Loan-to-Valuation Ratios (LVRs)
ii. The degree of geographic concentration (by postcode)
iii. The percentage of loans that are mortgage insured
iv. The percentage of borrowers showing credit impairment
v. The percentage of borrowers that are owner occupiers
vi. The percentage of borrowers that cannot document their income (eg. Accountant letter rather than two (2) Years Tax returns)
vii. The distribution of Net-Service-Ratios for the borrowers
viii. The distribution of loan terms of the borrowers
ix. The distribution of Employment Types (PAYG Full Time Vs. PAYG Part Time, Vs. Self Employed)
x. The weighted average and distribution credit score for the borrowers
xi. The percentage of first time home buyers within the pool

[3] The Economics of Standardisation: An Update, G.M. Peter Swann, Innovative Economics Limited, May 2010 (http://www.bis.gov.uk/assets/biscore/innovation/docs/e/10-1135-economics-of-standardization-update).

It is suggested that new terminology is introduced for standardised disclosure about mortgage pools. The term Standardised Australian Mortgages Securities (SAMS) can be used for assets which meet the defined requirements. Use of the standard would be optional but mortgage pools which met the required standards can be expected to be seen as lower risk and hence require lower interest rates to secure investors. Yellow Brick Road suggests that to support securitisation the Government should sponsor the establishment of an industry standard for disclosure of information concerning marketable pools of Australian mortgages.

3.5. Setting a Minimum Criteria for Standardised Australian Mortgage Securities

As well as meeting the minimum standard of disclosure, it is suggested that the Government request that an appropriate industry forum define a set of minimum standards that a pool of mortgages should meet to be regarded as a high quality investment. The value of this minimum standard is that conforming mortgage pools are more likely to be seen as desirable by a wide range of investors.

Yellow Brick Road's suggests that a starting point for a minimum set of criteria is:

i. The pool weighted average Loan to Valuation Ratio should be less than 85%
ii. No more than 5% of the loans in any one postcode
iii. 100% of loans mortgage insured by a mortgage insurer that is AA+ or better rated
iv. Credit impaired borrows 1% or less
v. The percentage of owner occupiers no less than 50% of borrowers in the pool
vi. Weighted average net service ratio of 1.1 or better
vii. 10% or less of borrowers without full income documentation
viii. The weighted average loan term of no more than 27.5 years
ix. No more than 20% of borrowers self employed
x. A capital contribution from the organiser of the SAMS securitisation of first loss provision of at least 2% of the total pool value
xi. A weighted average credit score of the borrowers in the pool which is in the fifth decile or higher, compared with the Australian population, aged 25 – 50 years of age.
xii. Mortgages registered to a reputable mortgage trustee
xiii. A standardised Trust Deed, tranches and related legal structures would be desirable for all SAMS mortgage pools

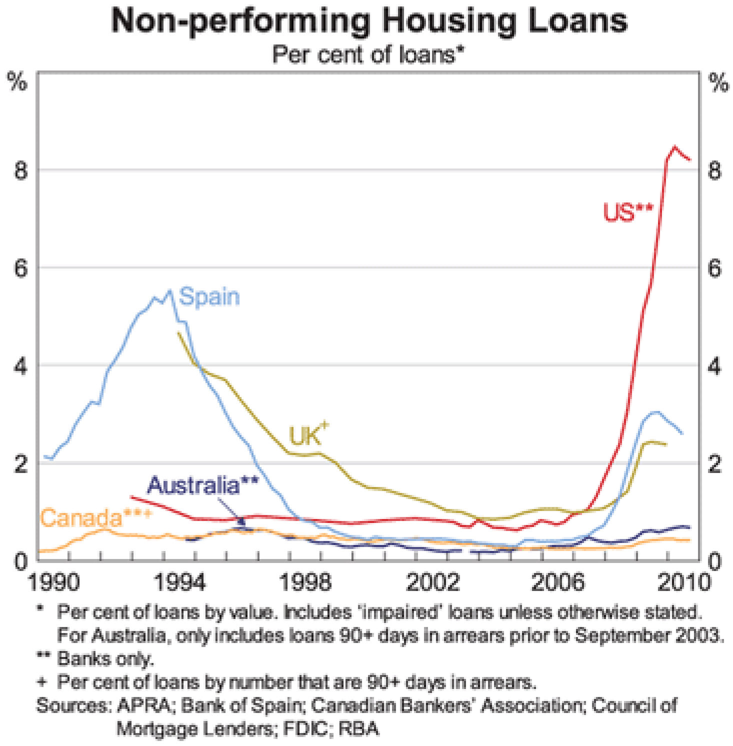
The requirement to include 2% equity capital within a Standardised Australian Mortgage Security pool means that the facilitator of the securitisation has a direct and long term stake in the quality of the underlying loans.

Yellow Brick Road suggests establishing a minimum quality benchmark for pools of securitised loans. It is suggested that pools of loans meeting the defined standard should be described as Standardised Australian Mortgage Securities (SAMS). Use of these standards would be optional, but encouraged.

3.6. Defining Standardised Australian Credit Scores (SACS)

Issuers of Australian Mortgage Backed Securities, and the originators of the underlying loans, use different methods to assess the credit worthiness of borrowers. These methods have similarities but the variation means that pools of mortgages from different sources, will have different credit criteria applied. These differences are a barrier to investment in mortgage backed securities. The currently available measures of credit quality, such as arrears rates are trailing rather than leading indicators and for more conservative investors they may not provide sufficient information.

While there have been significant reductions in the volume of securitisations of Australian mortgages, there has been no significant increase in arrears or credit impairment in Australian housing loans. This is shown in the following graph:



(http://www.rba.gov.au/speeches/2010/sp-ag-301110.html)

Yellow Brick Road suggests that as an asset class Australian housing loans represent an attractive target for potential investors and that implementation of standardised and widely used application credit scoring for loans within securitised pools, should reduce the perceived risk of these issues and increase their attractiveness to investors.

With a moderate level of effort, a standardised predictive credit scoring model based on Australian consumer credit behaviour and default rates could be developed by an expert group, appointed by the Government. Calculation of the credit scores for individual applications could be facilitated by existing credit system and service providers, as well as by extending existing standards for credit information exchange such as LIXI (www.lixi.org.au).

Hence Yellow Brick Road recommends, that to support securitisation, the Government should sponsor the establishment of an industry standard for credit scoring of applications for Australian mortgages, and require disclosure of the distribution of such credit scores within each Standardised Australian Mortgage Securities (SAMS).

3.7. Liquidity Options for Standardised Australian Mortgage Securities (SAMS)

High quality securitised mortgages should be tradable assets, under any market conditions. One of the most direct ways to make these assets more easily tradable is to provide a repurchase facility, and the natural entity to provide this service is the Reserve Bank of Australia. The details of this would require further research and review, however repurchase of these assets at 75% of face value for a period of up to 90 days is suggested. This measure would create confidence and liquidity in the market for SAMS and hence increase the desirability of these assets from an investor point of view.

Yellow Brick Road suggests that to provide liquidity for high quality Standardised Australian Mortgage Securities, that the Reserve Bank of Australia offer a short term repurchase facility for conforming pools of SAMS.

3.8. Establishing a Category of Australian Financial Institutions (AFI's)

The barriers to entry for a new Bank are high in Australia, especially the requirement for tier 1 capital of at least A$50M. The capital and regulatory requirements mean that even well qualified entities are discouraged from entering the market as a Bank. It is suggested that a new regulatory category of an 'Australian Financial Institution' (AFI) be established which has specific capabilities to compete in the market.

The suggested requirements to qualify as an AFI are:

- A minimum net capital of A$10M
- Passing regular tests of solvency, or in other words having adequate working capital
- Must hold current AFSLs and ACLs to deliver financial and credit (lending) advice
- Must have appropriately skilled Responsible Managers able to administer the business

- Must have well established compliance functions and risk management controls within the business

The key capabilities suggested for Australian Financial Institutions are:

- The ability to coordinate the issue Standardised Australian Mortgage Securities instruments
- The ability to originate loans based on the defined standards for inclusion in SAMS issues or for Mutuals or Regional Banks
- The ability to originate retail deposits provided that these deposits are held by an Australian Deposit taking Institution (ADI)
- The ability to earn fees of up 15bps P.A. on retail deposits originated

Establishing the category of AFI's means that a new set of 'middle tier' entities would be able to raise funds for lending and participate in the financial services market as credible competitors. The limitation that AFI's can raise wholesale funds *only* thorough quality controlled and low risk SAMS structures, means that the entry of these new competitors would not erode credit standards, or the quality of securitised Australian loans.

The suggestion that AFI's be allowed to gather retail deposits on behalf of an ADI is intended to grow the total retail deposits base, which can then be applied to support additional lending, through SAMS or other structures. As all these retail deposits would be administered by an ADI, this measure would not add any additional risk for retail depositors, or for the banking system as a whole.

To encourage Superannuation Funds to consider investment in low risk interest paying securities such as SAMS it is suggested that some percentage of franking credits is made available for the first two years of any investment of a Superannuation fund in a SAMS, or that some other tax deduction is provided.

In addition, it is suggested that franking credits be made available for equity invested in AFIs, for the first two years of each such investment, to encourage investment in these entities.

3.9. Creating a Market for Standardised Australian Mortgage Securities

Yellow Brick Road suggests that once a critical mass of SAMS have been issued, the Government should issue a licence for some party to operate an exchange for trading (and market making) in SAMS.

The long term benefit of establishing a market for high quality Standardised Australian Mortgage Securities is that large scale wholesale funding of Australian loans would be supported, and these funds could be used to drive competition in lending. The establishment of a liquid market would enable investors such as Superannuation Funds (including the Future Fund) to increase their level of investment in high quality securitised Australian loans, through SAMS.

3.10. Investing in Financial Literacy and Improving Access to Financial Advice

A number of studies have shown the low level of financial literacy of the Australian consumer. A recent report by The Australia Institute described the challenges created by poor financial literacy:

> In order to make the right choice, consumers of financial products need the right information. This is not necessarily a problem for very knowledgeable consumers, who are able to understand the implications of each option. For other consumers, however, the cost of acquiring and interpreting this information, the 'cost of thinking', is very high. This could be the result of insufficient education or problems with numeracy, or it could simply be through lack of experience. Faced with a decision they are not qualified to make, people often end up making no choice at all, even when that is the worst option available.[4]

A situation which we see frequently at Yellow Brick Road is clients that lack an understanding of the trade-off between debt, equity and savings. A number of clients come to Yellow Brick Road seeking advice about managing or refinancing their debt, when their core financial issue is that their level of debt is too high given their level of savings and income. Our view is that credit representatives should be encouraged to inform their clients of the range of options available, such as borrowing less and using available cash to build savings or super.

If we accept that Australians ultimately desire to own their own home and to retire comfortably, consideration should be given to providing customers with a more comprehensive picture of their financial situation at the time of taking out a loan. This would help to ensure that customers are made aware of options for investment as well as the implications of their borrowings on their future savings, including superannuation. Such a picture would show:

- Likely growth in assets and debt pay down
- Ability to self fund their own retirement
- Sources of revenue between now and retirement
- An analysis of the impact of current spending patterns
- What-if scenarios to enable more informed decision making

It is not enough to consider a potential new mortgage in isolation from the rest of a customer's financial circumstances, including their insurance coverage, superannuation and other investments.

Simple tools and calculators are available to assist in graphically presenting to customers the long term financial impact of their borrowings and investments.

Yellow Brick Road supports ASIC's Class Order relief for superannuation trustees (other than trustees of self-managed superannuation funds) and their authorized representatives, from the personal advice requirements of Section 945A of the *Corporations Act 2001* in limited circumstances. Similarly, we note

[4] Money and Power - the Case for Better Regulation of Banking, The Australia Institute, Josh Fear , Richard Denniss and David Richardson, page 24.

the recommendations from the Future of Financial Advice reform package to expand the availability of low cost 'simple advice' to improve access to affordable financial advice. We recommend that the spirit of the policy amendment and reform recommendations be extended to provide affordable and accessible financial advice, whether on matters relating to superannuation or non-superannuation investments, to all Australians. Access to simple, single issue personal advice delivered in a compliant manner will ensure that many more Australians will get the advice they need, at their various life stages and at an affordable price.

Yellow Brick Road's view is that the Government should invest directly in programs to increase the financial literacy of all Australians, and should support the delivery of 'simple advice' when this meets clients requirements.

3.11. Provide a Tax Deduction for Financial Advice Fees

The retirement savings gap is the gap between expected total retirement savings and the expected expenditures of retired people. The fact that the retirement savings gap continues to grow (currently estimated at $897b as at 30 June 2009; an increase of 29% since 30 June 2008)[5] means that the Government should allow tax deductibility for the cost of preparing a financial plan. This small concession will help to ensure growth in financial literacy which will have a direct impact on the ability of Australians to fund themselves in retirement and reduce the demand for publicly funded retirement benefits.

Various industry bodies including the FPA, the Financial Literacy Foundation and the FSA have sought, and continue to seek, ways to better educate consumers about the value of financial advice. Rice Warner has also produced a study[6] which seeks to quantify the value of good advice. Alas, despite these efforts, fewer than 1 in 5 Australians have sought advice from a financial planner.

Yellow Brick Road recommends that a tax deduction for costs relating to the financial advice should be provided, up to a maximum value per annum.

3.12. Facilitate Transitions of Clients to Lower Cost Investment Platforms

Current rules for providing financial advice mean that an investor seeking to change investment platforms requires a comprehensive Statement of Advice which documents the platform change. This is currently the situation with IDPS (i.e. non Super) Platforms because both legal and beneficial ownership remain the same. The change of legal ownership entailed in a change in Superannuation Funds / Platforms has the unintended consequence of making transfer to lower cost services difficult to effect. Where the new platform accepts the investor's assets (which will not always be the case) the transfer of legal ownership with beneficial ownership remaining the same should not crystallise CGT.

[5] Report from Rice Warner "Superannuation Savings Gap at June 2009" Oct 2010
[6] Report from Rice Warner "The Value of Advice" by Michael Rice, Feb 2008

A streamlined process to move clients to alternative investment platforms is required. It is suggested that where a client is being advised to move platforms a short form statement of advice documenting the changes required should suffice, without the need for a client signature.

Yellow Brick Road recommends that clients wishing to move to an alternative investment platform should need only a simplified Statements of Advice for these transitions.

3.13. Provide a Capital Gains Tax Exemption for Transitions to new Investment Platforms

A specific exemption to current Capital Gains Tax rules should be introduced to exclude CGT events which arise as a consequence of an investor moving assets between investment platforms. Current capital gains tax rules create a significant "lock-in" factor which effectively prevents many investors moving from high cost investment platforms to low cost alternatives.

A specific Capital Gains Tax (CGT) exemption should be provided for clients wishing to transition assets from one investment platform to another, as these moves can trigger CGT liabilities when no actual capital gain has occurred.

3.14. Introduce a Social Licence Fee for the Major Banks

The Major Banks enjoy both an explicit and de facto government guarantee and Social Licence to operate. Yellow Brick Road's view is that the implicit Social Licence to operate as facilitators of transactions, deposits and lending, should not be provided for free. The major Banks can rely on support from the Government, including from a regulatory and funding point of view. For example, if one of the Major Banks had liquidity issues, the Government is effectively obliged to assist because these institutions cannot be allowed to fail. The Major Banks can be considered to be 'contingent liabilities' for the Government and hence for all Australians.

Yellow Brick Road suggests that the implicit Social Licence held by the Major Banks be made explicit in a fee calculated as a percentage on assets (ie. Loan portfolio), and paid by the Major Banks to the Government. This fee can in turn be used to fund investment in SAMS, or to fund franking credits for investment in SAMS.

There should be a debate about an appropriate level for a Social Licence Fee for the Major Banks, but Yellow Brick Road suggests that a reasonable level would be one (1) basis point, payable per annum on total assets, by profitable Major Banks. For the Banks that are most profitable, measured in terms of return on equity, a higher rate should apply. It is suggested that for Major Banks with a return on equity greater than 20%, a two (2) basis points per annum fee on total assets would reflect the ability and need for these entities to pay a higher Bank Social Licence Fee.

In summary, the Government should consider a Social Licence Fee for the Major Banks which should increase, based on their level of Return on Equity (ROE), and this fee should be used to support the securitisation of Australian loans.