Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 273-276

Topic: Audits

Hansard Page: Written

Senator BUSHBY asked:

273. Currently, how many audits of financial planning licensees, including their financial plans, are being conducted –and how many ASIC staff are dedicated to this task?

274. How were those firms under audit targeted or identified?

275. Does ASIC believe its current audit program is sufficiently robust to ensure an early warning of another situation like the Storm or Westpoint situation?

276. Now that commissions have been banned or are close to being banned and/or have been eliminated by industry practice, what are the risks ASIC needs to be aware of in order to protect the capital of retirees and pre retirees?

Answer:

273. ASIC conducts a wide range of 'audit' or surveillance activities on financial adviser licensees. As part of these surveillance activities we might look:

- broadly at a licensee's business model;
- specifically at certain risks we have identified within a licensee's business model i.e we might focus on a licensee's complaints handling procedures;
- at the quality of advice provided by certain financial advisers;
- at advice relating to certain themes i.e we might look at advice to switch super funds.

We are currently conducting around 20 surveillances of financial advice licensees. In the current financial year we have worked on 118 surveillance activities.

ASIC has a specialised Financial Advice team. The team has a total of 28 full time equivalent staff. In addition to working on surveillance activities, these staff also work on financial advice policy issues, projects, consumer complaints, applications for relief from various provisions of the *Corporations Act* (2001) and industry engagement.

274. Surveillance activities can be split into two categories – reactive surveillances and proactive surveillances. In the current financial year, reactive surveillances have accounted for over 80% of our surveillance work with proactive surveillances making up the balance.

Reactive surveillances involve ASIC looking at licensees where we already have some information either through complaints data or general market intelligence.

We choose to do proactive surveillances for a variety of reasons e.g. when we have identified entity-specific risks, have a focus on particular surveillance themes that are considered important or wish to test a key risk area within the industry.

Alongside our surveillance work we have in recent years engaged in a review of industry practice for the larger advice licensees. This has involved ASIC seeking information by way of questionnaires from licensees and reviewing responses to identify potential risk areas. We provided feedback to all those licensees that were involved in the first phase (Top 20 licensees). ASIC released a report in September 2011 which described the key findings and expectations for industry going forward. The review is currently in its second phase covering the Top 21 – 50 licensees and a report will be issued later this year.

275. Through our proactive and reactive surveillance work we have a robust surveillance program. As stated above, we often rely on market intelligence to identify high risk financial advice businesses.

Given the information we gather on the Top 50 firms (which cover a large portion of the market), the market intelligence we receive and our surveillances on higher risk firms, ASIC believes there is a high probability that it would get early warning of a large scale problem with financial advice.

Where we have early warnings of situations like Storm and Westpoint we will of course seek to act quickly to protect consumers. Action we may take includes:

- Reviewing client files to assess the quality of advice received;
- Informing clients of their internal and external dispute resolution rights;
- Requiring the licensee to take remedial action;
- Issuing media releases to warn/inform the market;
- Suspending or cancelling the licensee's licence; and
- Taking banning action against individuals.

276. Some of the risks to pre-retirees and retirees include being inappropriately advised to:

- have an aggressive asset allocation strategy;
- invest in complex or high risk products; or
- set-up a self managed super fund.

We remain concerned about the risks that retirees and pre-retires face because of the standard of retirement advice and pre-retirement advice that we saw in our recent shadow shop.

Pre-retirement and retirement is a vulnerable stage in a person's investment lifecycle. Decisions about retirement finances have a profound impact on future well being. Retirement planning is also complex and quite different from most other financial and lifestyle decisions people have experience in making. Given the complexity of retirement decision making, many consumers seek financial advice to assist with retirement planning.

In the coming year, we will continue looking at pre-retirement and retirement advice in the ordinary course of our surveillance activities. We will also be looking at advice associated with self managed super funds in order to assess whether the advice is in the best interests of the consumers. This is a new area of focus for us.

In addition, we are also following up with the advice sector on what we expect quality retirement advice to look like as a result of the shadow shop and we will be providing industry with some examples of scaled retirement advice later in the year as part of our Future of Financial Advice work.

Our MoneySmart website also provides a lot of valuable information for pre-retirees and retirees. We will continue updating this information on a needs basis.

Furthermore, our ongoing work focusing on raising the assessment and professional development standards for financial advisers is aimed at assuring there is a uniform minimum standard of competency of financial advisers.