



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

3 May 2007

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Dear Rhys and Jesse,

PS 146 Review preliminary comments:

Thank you for your time on Tuesday and the opportunity to discuss the scope and objectives of ASIC's review of Policy Statement 146.

Abacus - Australian Mutuals appreciates the chance to make some preliminary comments on the review ahead of your Consultation Paper.

Abacus represents Australia's 150 credit unions and mutual building societies, which collectively have over \$60 billion in combined assets and four and a half million members nation-wide. Abacus provides a single industry voice for the customer-owned banking sector, and reflects the shared values of mutuals in putting members first, working cooperatively and community focus. Abacus has brought together members of the former Cuscal Credit Union Industry Association, the National Credit Union Association (NCUA) and the Australian Association of Permanent Building Societies under one industry body.

We urge you not to limit the review of PS 146 to administration of the policy and the training register.

No case has ever been made by ASIC or anyone else for the proposition that advisers on simple, well understood, low-risk products need the skills and knowledge of a financial planner.

AFS licensees providing such products should be making their own decisions about how to meet their obligation to ensure their staff are adequately trained and competent.

While guidance from ASIC for licensees is needed and welcome, prescription in the form of PS 146 is imposing an unnecessary compliance burden on licensees. The other negative impact of PS 146 is its role as a factor in pushing licensees to adopt a 'no advice' business model.

Abacus notes there is a clear and continuing Government commitment to reduce the regulatory compliance burden on businesses.

"Some aspects of these [PS 146] training requirements are excessive, particularly in relation to the level of training required for persons who deal in, or provide advice on, relatively straightforward financial products," said the Government's April 2006 Consultation Paper *Corporate and Financial Services Regulation Review*. "Although ASIC has modified or clarified PS 146 in certain respects (including as part of the refinements to financial services regulation), some aspects of the policy are still not sufficiently flexible."

The Government's Red Tape Taskforce recommended that ASIC should review guidance material to ensure it provides effective guidance on good practice and does not impose additional or inflexible regulatory requirements. In August 2006, the Government gave its in principle agreement to this recommendation and said it would encourage ASIC to undertake the review.

Treasurer Peter Costello said on 12 April 2007: "The Government's commitment to tackle red tape is ongoing."

As noted above, Abacus represents 150 mutual ADIs. These ADIs are highly diverse in size, business model and customer base. We have local, regional and national institutions, and institutions with and without branch networks. We have institutions whose members are drawn from a profession or particular industry and others that are community based.

"The diversity of financial services providers and the manner in which those services can be provided makes prescribing standards of education in financial services practically impossible, " one of our larger members says.

A number of our members have adopted the 'no advice' model, partly due to the PS 146 training requirements.

"From a customer service perspective, the restriction on the ability to make a suggestion or recommendation about a product creates a divide between the client and the advisor in that the client cannot expect to receive any assistance from the advisor in making a decision about the most suitable product for their needs," one of these members says.

Another member says the 'no advice model' is impractical.

"A consequence of not having trained staff is that they constantly have to be alert to what they are saying to a customer - is this advice? should I get someone else to assist? is there anyone else to assist? have I already breached the FSR requirements? The only practical solution is that we have to train all of our staff that will have any contact with members to at least the Tier 2 level (no exceptions). This has been our standard approach right from day one and continues to be a key component in our staff training program. The compliance burden in relation to PS 146 remains significant and the cost is ultimately passed on in higher charges to the consumer," the member says.

The majority of our members provide retail banking products, such as deposits and payment products, and general and consumer credit insurance.

These products are in the Tier 2 category and are products that are "relatively straightforward", low risk and well understood.

We seek parity of training requirements for all Tier 2 products in line with the treatment of basic deposit products (BDPs) with explicit clarification that it is up to licensees to determine the knowledge and skills requirements of their advisers.

In August 2005, ASIC modified PS 146 to ease the training burden on providers of BDPs:

- it is no longer mandatory for training courses for advisers on BDPs to cover the 'generic knowledge' requirements contained in PS 146;
- training on BDPs need only cover the particular 'specialist' knowledge and 'skill' requirements in PS 146 that are relevant to the adviser's activities; and
- there might be situations where continuing training is not necessary for all persons who advise on BDPs. The licensee will first need to consider whether continuing training is required. It may be that there is no need if, for instance, the products have not changed.

The revised policy gives licensees greater flexibility to tailor training to suit their BDP advisory activities, without the cost of unnecessary mandatory generic knowledge training.

Our proposal is to extend this flexibility to general insurance and consumer credit insurance (CCI) and to further reduce prescription about training content.

Advisers on BDPs can meet the training standards by successfully completing a training course which is not on the ASIC Training Register but which has instead been assessed by the licensee. This option should also be available for advisers on general insurance and CCI.


A consistent approach to training would help deliver a simpler regulatory system and lower compliance costs. Licensees will be less likely to opt for the 'no advice' model.

Since the August 2005 changes to PS 146 in relation to BDPs, the Government has eased the disclosure requirements for certain general insurance products, reflecting the fact that retail clients are relatively familiar with these products. For example, an adviser need not provide a SOA when giving advice about motor, home building, home contents and travel insurance.

The same policy approach should be adopted in relation to the training requirements for advisers on general insurance and CCI.

An alternative solution is to entirely remove Tier 2 category products from PS 146. This would provide even greater flexibility to licensees to meet their training and competency obligations under s912A of the Corporations Act.

Yours sincerely,



LUKE LAWLER

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