Dear Sir / Madam

Thank you for the opportunity to provide this submission in response to the review of the Australian Securities and Investments Commission (ASIC) Industry Funding Model (IFM).

FINSIA – the Financial Services Institute of Australasia – is the leading professional body in the financial services industry in Australia and New Zealand with a membership base of more than 10,000 members across the two markets. Our members operate in a range of sectors across the financial services industry including: banking, institutional markets, funds management, securities, and professional financial advice.

Our purpose, since 1886, has consistently been to support the financial services industry by driving the highest levels of professionalism for the betterment of our community through consistent standards of competency and conduct.

FINSIA's response to some of the key elements of the IFM Review is set out below.

With the concurrent Quality of Advice Review, here it is worth pointing out that FINSIA is a participant in the Joint Associations Working Group (JAWG) forum that comprises a number of leading professional bodies who collectively represent a significant proportion of the financial advisory market across Australia. FINSIA supports the views of the JAWG in all representations made to the Quality of Advice Review.

Commentary

Broadly speaking, FINSIA agrees that it is appropriate to review the IFM at this point, given it has been in place since 2017.

While it is our opinion that the current model which ensures ASIC's regulatory activities are paid for by those creating the need for regulation rather than taxpayers is appropriate and should continue, it is also our view that aspects of the current system need to be reviewed.

With several thousand FINSIA members in the advice area of financial services, we are acutely aware of substantial regulatory and structural changes within the sector and how those changes have resulted in increased cost pressures across the board.

It is our view that the decline in adviser numbers and the increase in an overall levy – which has tripled over the past five years – should be central to this review.

That it is being conducted at the same time as the Quality of Advice Review and its overarching remit to focus on the affordability of advice highlights just why this is the case.

The shrinking number of advisers, down from 30,000 to 16,000 over the period in question, is compounding the problem as the cost of the overall levy is being spread across a smaller pool of advisers.

Given that the Terms of Reference states the 'Review will be forward looking' it is crucial to deal with why there is such a decline is adviser numbers.

A constant complaint from our members in the advice sector is how dramatic the levy increases have been, making it too expensive to run their businesses.

Looking at the figures over the past five years supports this.

Since FY17/18 the levy has had a $1,500 fixed component.

Over the five year period, the graduated variable component has increased from $934 to $1,142 in FY18/19, then up to $2,426 for the following financial year and up to $3,138 in FY20/21.

While the previous government introduced a temporary relief, capping levies back to the FY18/19 level of $1,142 for two consecutive years, it has not halted the exodus of advisers.

The 16,000 advisers referred to earlier is predicted to reach 13,000 by 2023 and could reduce to under 10,000 by 2026.

Taking all of these pressures into account, it is our submission that the cap on the variable component of the levy be kept in place until this review and the overarching QoAR are complete.

While the impact of the levy is on the licensee, it is ultimately passed to consumers at a time when advice is arguably required more than ever. Although FINSIA is supportive of the use of technology in the way it can help Australians thrive through robo-advice we would suggest a country of 25 million people needs more than 16,000 advisers.

As pointed out earlier, FINSIA has been a participant in the Joint Associations Working Group (JAWG) forum and was pleased to have the opportunity to join a Roundtable with ASIC and Treasury late last month.

One argument made on behalf of participants of that association is, we feel, worth repeating to highlight the problems that have evolved over the period the IFM has been in place.

That is the shrinking footprint of large licensees.

While those institutions have incurred the vast majority of the cost of regulatory oversight and investigation, most have stopped offering advice as part of their business and the number of advisers attached to those institutions still involved has declined at a much faster rate than that of the general population of AFSL holders.

Thus the burden to cover ASIC's costs now falls on those advisers who are sole traders or small business owners.

Unlike those larger licensees, they are unable to absorb ever increasing regulatory costs.

In light of the comments made above, our advice to Treasury is to consider how the Industry Funding Model Review can fins a way to ensure that the levies do not exasperate the structural challenges in the industry. The review is a prime opportunity to review the levies without adding to the burden facing financial advice.

Closing

We trust that you find the points made above helpful in your deliberations as part of the next steps in this Review. We look forward to continuing to provide input to you over coming weeks and months. If you have any specific questions in respect of the views set out in this submission please contact me on +61 2 9275 7900.

Yours sincerely

Yasser El-Ansary

Chief Executive Officer and Managing Director

FINSIA