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## **Product disclosure a failure NIBA tells inquiry**

Regulators are now coming to realise that product disclosure obligations don't work, don't result in better informed consumers and don't lead to them making better decisions about financial products, the National Insurance Brokers Association (NIBA) has told the Financial Services Inquiry.

The key assumption about market regulation has been that if consumers are provided with good information, they will act rationally and purchase products and services that are in their interests and meet their needs, but leading Australian and international regulators now accept that this assumption is no longer correct, says NIBA.

These obligations can only be a limited part of the end solution.

The submission says one of ASIC's key objectives is to "contribute to Australia's economic reputation and wellbeing by ensuring that Australia's financial markets are fair and transparent, and supported by confident and informed investors and consumers". In the area of insurance products and services, the overall approach has been one of promoting improved financial literacy followed by extensive market regulation.

"NIBA respectfully submits that no amount of financial literacy and education programs will produce 'confident and informed consumers' of risk insurance products – the community does not understand and appreciate the nature and extent of risk, and the community will never become familiar with the nature and extent of insurance products and policies that are available in the market.

"In these circumstances, NIBA respectfully submits that the only realistic way to achieve confident and informed consumers of insurance risk products is to promote financial literacy followed by the need to seek qualified, professional advice from a licensed adviser who is experienced and expert in risk and insurance matters. In other words, an insurance broker."

The submission says there has been a tendency for regulatory policy to be developed and applied on a "one size fits all" approach. "Too many times we have seen broad based regulations introduced, followed by amendments, carve outs, exemptions and other exceptions, because the initial proposal was not properly developed in the first place. We should be able to do better at this," NIBA CEO Dallas Booth said today.

"The recent and current debates regarding the Future of Financial Advice (FOFA) reforms are an excellent example of this issue. The FOFA reforms were developed following a Parliamentary Joint Committee which examined the collapse of Trio and Storm, and the subsequent losses sustained by many Australian investors.

"The problem with the implementation of those recommendations is that they were effectively applied to all types of financial advice, for all types of financial products. Insurance brokers, mortgage brokers, stock brokers, bank tellers, were all caught by reforms intended to apply to financial planners and investment advisers.

"The Parliamentary Joint Committee made no recommendations in relation to advice provided by insurance brokers. Despite this, recommendations designed for products and advice in the area of long term wealth creation and retirement savings were applied to short term general insurance and life insurance risk products."

The submission also says the Inquiry cannot adequately address the financing of growth and prosperity in Australia unless it examines the financing of risk. Very little growth and prosperity occurs unless the owners and financiers of the activity are able to obtain insurance, or insurance-like products and services on competitive terms.

"The insurance industry in Australia helps provide the security that allows individuals, businesses, large and multinational corporations and governments to undertake their normal activities.

"The growth and prosperity of Australia is therefore dependent on mechanisms by which risk is financed – whether by the transfer of risk via the insurance process, or other more sophisticated risk financing mechanisms adopted by larger corporations and governments.

"NIBA believes it is important that any examination of the Financial System in Australia include in its work, a review of the financing of risk that is faced by individuals, communities, corporations and governments."

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NIBA is an independent industry association representing 500 firms and more than 2600 intermediaries, who handle almost 90% of the commercial insurance transacted in Australia. Brokers play a major role in insurance distribution, handling \$18 billion in premiums annually and placing around half of Australia's total insurance business.