ASIC and Australia's ageing population

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CHECK AGAINST DELIVERY

Introduction

Good evening everyone and welcome.

Like Natalie, I would like to extend a warm welcome tonight to our industry stakeholders and also the very big turnout of parliamentarians at both the state and federal level who are joining us tonight - many of them for the first time.

A special welcome to Steve Irons, who is of course the Federal Member for Swan, but also chair of the Parliamentary Joint Committee on Corporations and Financial Services – or PJC – which is the committee to which ASIC is accountable and the committee before which we testify four times a year.

Tonight I wanted to do something a little different – and I wanted to talk about something that is that is critically important – and that is the issues that face us as we get older.

It is a demographic reality for Australia that we have an increasing number of retirees and an ageing of our population. The 2015 Intergenerational Report showed that by 2055, the number of Australians aged 65 and over is projected to more than double; one in every 1,000 people will be 100 years or older.

At ASIC, we recognise that this raises issues of fundamental and strategic importance to the financial services sector, the community and the economy.

In financial services, there are big issues for older Australians. Let me focus on four of them.

- **retirement planning is complex**, requiring people to consider the long term and think conceptually about uncertain and difficult concepts, including their own health and mortality
- as people age, they may be faced with their own **cognitive decline** and lack the ability to make sound decisions for themselves, or even recognising their own cognitive decline can be an issue.
- older Australians may also be more vulnerable to some types of **scams or elder abuse**
- some older Australians may **lack familiarity with the technology** used to deliver financial products and services.

ASIC together with other regulators at the state and Commonwealth level have a keen interest in the retirement space and with the provision of financial services to seniors in an appropriate and effective way.

Tonight I would like to talk about what ASIC is doing to help in this area, focusing particularly on:

1. Building financial capability of seniors,
2. Financial advice, for seniors – our surveillance and guidance work,
3. Retirement income products for seniors – our collaborative work on the development of new products, and once launched how they are marketed.
4. Real estate ownership and investment – our surveillance of reverse mortgages and continued focus on responsible lending.
5. International cooperation – the ageing of the population and its consequences is financial services is a phenomenon in many countries around the world. It is critical to share ideas and approaches.

Building financial capability

It is a priority for ASIC that seniors have the capability to engage confidently with financial products and services.

ASIC's MoneySmart website provides a range of information and tools, such as our retirement planner and financial advice toolkit, that support seniors make informed financial decisions.

Given the financial challenges faced by seniors, we are currently looking at what additional resources would assist them, and family, friends and carers who are helping them, make important financial decisions about, and in, retirement.

To inform this work ASIC commissioned market research to help us better understand Australian seniors attitudes and behaviours related to financial decision making.

In mid-August we released the key findings report– 'Building Seniors' Financial Capability'. The report, which you can find on the ASIC website, identifies a number of key segments of, and provides some valuable insights into the, seniors' population in Australia.

This research, and ongoing engagement with stakeholders will be vital to ensure the effectiveness of ASIC's work in this area, including providing policy advice and developing new resources, that are relevant and useful.

One area that has emerged from our research and from talking to consumers is the complexities within family units, for instance when planning for the future of an ageing parent and anticipating their evolving needs.

Financial matters are only one thing that needs to be addressed when people may also be focused on their long-term health or change living arrangements.

Our aim is to support healthy and constructive conversations about money during these times of change.

Over the next few months we will be exploring the best ways to do that through our existing channels (ASIC's MoneySmart) and also expanding our reach.

In doing this work, ASIC leverages its wide range of stakeholder connections, in relation to seniors and ageing, across government and consumer groups.

In supporting this important work, I also want to mention one outcome of an enforcement action we took against the Commonwealth Bank of Australia in relation to their wholesale spot foreign exchange (FX) business.

This action was finalised last year with an enforceable undertaking, including a commitment to make a community benefit payment of **$2.5 million** to Financial Literacy Australia for their grant program to be used towards advancing financial literacy education related to the aged care sector.

Financial advice

Turning to financial advice.

Ageing and retirement planning can present seniors with complex decisions with significant consequences over long timeframes.

Issues like, to name a few of them:

1. taxation, superannuation and social security issues, and how they interact with each other,

2. real property, estate planning and aged care issues,

3. sequencing risk and longevity risk, on top of inflation and interest rate risks.

4. Powers of attorney – checks and balances.

We are concerned about seniors having access to quality financial advice that meets their shifting needs over the course of their retirement.

When people approach the retirement transition phase, they may well be dealing with an amount of superannuation benefit significantly larger than any amount they have deal with before.

Market shocks that occur in the "retirement risk zone" - 5 to 10 years prior to retirement - can be the most damaging. There is significant sequencing risk at or near withdrawal from the paid workforce and there is limited time available to recover.

We might wonder whether we are at the stage where all people should get financial advice as they approach retirement.

Our **surveillance work** in financial advice involves a number of aspects. Let me consider three of them:

1. We consider the appropriateness of advice to address retiree's **long term objectives**.
2. **Self-managed superannuation funds** are one particular ASIC focus. We look at how financial advice deals with the issue of the ongoing suitability of a SMSF as ageing progresses. That is, advice should not only be about the establishment of a SMSF, but also about appropriate exit strategies if a person has an issue with cognitive decline and diminished capacity to manage an SMSF.
3. **Scams, frauds and financial abuse -** Decent retirement nest eggs can be tempting to those who don't have senior's best interests at heart. Financial advice aside, we also know that seniors, perhaps being perceived as vulnerable, can be the target of scams and frauds, and financial abuse. We continue to focus on this area and take action where needed.

On **guidance**, we support robo-advice in increasing access to advice, but there are also risks that not all seniors will be assisted by the increase in digital accessibility of products or robo-advice.

Retirement income products

Turning to retirement income, which was identified by the Financial System Inquiry as a critical issue.

The Financial System Inquiry recognised that managing multiple financial objectives and risks in retirement is complex, and that there were regulatory barriers to providing effective financial products for retirement.

The market for superannuation and retirement income products marketed to retirees and seniors will now be given impetus by recent Government action in relation to new types of retirement income products.

Recently, new regulations have opened up the potential for new types of pooled lifetime pension products such as group self annuitisation schemes and collective defined contributions schemes.

Though it is early days, these are aimed to help address concerns about longevity risk.

ASIC is involved in the cross-agency working group, led by the ATO and also involving APRA and the DSS, established to facilitate the introduction of these new retirement income products by a joint streamlined agency consideration of how a proposed product may satisfy the relevant regulatory requirements.

This should make it easier for new and innovative retirement income products to get to market.

We will also be focused on monitoring these products as they come to market.

In addition to these developments with retirement income products, and following the FSI recommendation, there are now Government proposals for superannuation trustees to offer **comprehensive income products in retirement -** or CIPRs.

The CIPRs proposals include that super funds develop and promote a retirement income product with a longevity component to fund members as the way in which their superannuation benefits can be taken.

At ASIC we have a strong behavioural economics focus, and our behavioural research and insights tell us that retirement is a rich environment for poor consumer outcomes due to both demand and supply side factors and that small details in the choice environment make a big difference to behaviours.

Given the ‘high stakes’ nature of the decisions people make as they transition through retirement, we believe the proposals that super funds promote CIPRs to super fund members as a 'soft default' to their decision-making will need:

- A robust stage of **data modelling** to ensure the products are being targeted to the right people.
- Very careful **consideration and testing** of the features of the choice environment, disclosure, comparability and advice elements to ensure the products will work as intended over time.

Even then, given the long-term nature of these products, ongoing monitoring will be required to further head off any perverse outcomes.

This is an area we will continue to look at.

Real estate ownership and investment

The home can also be a source of income in retirement and an important financial resource in relation to funding entry into and ongoing costs of aged care.

A general fall in housing property prices could have significant impacts on retirement incomes of senior Australians, at the point where they are looking at downsizing and using equity for retirement income or for aged care. A price fall would also severely reduce the equity available in a leveraged self-managed superannuation fund.

Reverse mortgage and **equity release** products vary, but can include products offering income streams in return for the capital growth of a property. However, the final overall costs of a reverse mortgage product are not known to consumers at the time they enter it and are ultimately affected by changes in house prices.

We continue our focus on **responsible lending** and **borrower financial hardship practices** of home loan providers, including reasonable inquiries into borrowers' financial position and repayment capacity.

We have also commenced a new surveillance into reverse mortgages this year, issuing a data request to better understand the industry, the demographics of borrowers and to assess compliance in this area.

Through our surveillance if we do find serious non-compliance, we will take enforcement action.

We will be issuing a report early in 2018 on our findings.

International co-operation

The ageing population is an international phenomenon. ASIC contributes to the work of Committee 8 (Retail Investors) of the International Organization of Securities Commissions on the vulnerability of senior investors, and what this means for regulators.

This Committee is working to produce a report with conclusions and possible recommendations about how to better meet the challenges of an ageing population.

We are also closely following international developments in peer countries.

The UK's Financial Conduct Authority (FCA) released a discussion paper on ageing and financial services last year. The FCA stated that it had a role in helping to facilitate the debate about what older people need from financial services providers and the barriers to delivering what is needed in a way that is accessible to those consumers. Its aim was to work collaboratively with others to help bring about positive change.

Conclusion

In terms of our next steps, ASIC will certainly continue its work in relation to the ageing population.

Internally, ASIC has established a Coordination Group, chaired by myself, to reflect ASIC’s focus on ageing and financial services. In progressing this work, we will recognise different and ever-changing cohorts within this broad group, and seek to understand and address concerns that arise in each major stage in the retirement and ageing process.

These stages include initial decision making about commencing retirement income, the ability to continue to manage retirement income products and structures with the onset of cognitive decline, and the need to interact with aged care.

We intend to make public statements about the work we are doing, some of which I have touched on today.

We will produce a report for discussion later this year, on the actions we plan to take in our perimeter, to confirm our commitment to helping older Australians and to help address concerns faced by an ageing population.

I hope that gives you a good sense of the work we are doing across ASIC in this critical area.

I'd be very happy to take any questions.

Thank you.