

Source: IFA Magazine Issue No. 490 –February 2010

Journalist: Wouter Klijn

Treasury steps up equity release review

Treasury has called for the formation of an industry consultation group to discuss the review of the equity release industry.

The group would be made up of representatives from the adviser and broker industry, equity release body Senior Australians Equity Release (SEQUAL) and consumer advocacy groups, SEQUAL chief executive Kevin Conlon said.

The review was part of phase two of the Financial Services and Credit Reform and discussions were expected to begin next month, Conlon said.

After SEQUAL lobbying, the government has now decided to review equity release products and reverse mortgages separately, instead of as part of a wider group of credit-related financial products.

“SEQUAL approached the government to fast-track the review for the equity release products and to deal with equity release products as a priority,” Conlon said.

“It has been agreed that the equity release market will be considered a priority and that that process will commence without further delay.”

In a green paper released in July 2008, the government flagged a number of issues with equity release products, based on a 2007 ASIC study.

One key issue was the at times low level of consumers’ and financial intermediaries’ understanding of the products.

However, since the study was conducted, the equity release industry had worked closely with ASIC and state-based agencies, such as NSW Fair Trade and Consumer Affairs Victoria, to address the concerns, Conlon said.

He said the government should take these recent efforts into consideration before making any changes to the current regulations.

“SEQUAL is confident that the existing practices within the industry are of a high standard and we believe that it is unlikely that there will be a significant regulatory change imposed on the market,” he said.

“The industry has done a good job and this should be more of a health check.”

Another key issue flagged in the paper was the unequal regulatory treatment of financial planners and mortgage brokers, which form the main distribution channel of reverse mortgage products to consumers.

While financial planners are subject to a national regulatory regime, mortgage brokers are currently subject to a variety of state regimes. The government is keen to create a level playing field for all parties involved because it would increase transparency for consumers and certainty for the industry.

Both SEQUAL and the FPA have urged the government to find a solution that does not require additional licensing for existing Australian financial services licensees.

SEQUAL was keen to get the reform process started because the overhang of regulatory reform could have a negative impact on the industry, Conlon said.

“There is nothing worse than an industry being identified as being subject of a regulatory review and then an extended period of time that nothing happens,” Conlon said.

“If you look at the brokers’ market, for nearly 10 years there was a call to licence brokers, and of course they suffered that suspicion that they should be licensed,” he said.

A Treasury spokesperson confirmed a review of equity release products was underway, though they could not provide further details on the process.