# FSC BT Political Series Breakfast with the Hon Chris Bowen MP

Keynote speech by Senator Hon Kristina Keneally

Melinda Howes: Good morning. Well, it's been great to have a bit of extra time to network with everyone. We've really been enjoying that at our table. Welcome and thank you for coming along this morning to the FSC BT Political Series. I'm Melinda Howes from BT. In my experience, the business community and parliamentarians are most effective when we have open and constructive dialogue on how we can work together to meet and hopefully, even exceed community expectations. The BT FSC Political Series allows our industry to maintain an ongoing and open dialogue with Canberra and I'm proud to continue to support it. While much of the discussion is invariably about policy direction and reform, we shouldn't lose sight of the important role that self-regulation plays and should continue to play in our industry.

Melinda Howes: Government intervention cannot win back trust for us. Through self-regulation, we have the opportunity to demonstrate to our customers and communities our ability and our will to deal with difficult issues and to do so in their interests. If I may, this is why BT recently called on the superannuation and insurance industries to find a pathway to bind ourselves to the principles developed in the insurance and superannuation code of practice. The code's an important step forward. It's been developed in consultation between consumer groups and the industry. Consumers and government have every right to expect that the industry will sign up in full and make it enforceable. Self-regulation is hard, but also essential to rebuilding trust and making our industry sustainable over the long-term. With that brief introduction, let me turn to my guest speaker ... actually we have guest speakers today.

Melinda Howes: Chris Bowen is still on his way, and we expect him to be here in time for a Q&A at the end, but we're fortunate to have Kristina Keneally who has kindly offered to step in and make his speech, so I'll introduce both of them. The Shadow Treasurer isn't always a stranger to this room, and we all better for his ongoing engagement. Chris Bowen has worked constructively with the financial services sector for over a decade since he first appointed Assistant Treasurer in 2007. As Shadow Treasurer, he's clearly leading the opposition's efforts to formulate an alternative economic and financial policy platform. Whilst we may not agree on all issues, we've really appreciated Chris' open door policy, and his willingness to engage on a whole range of policy areas.

Melinda Howes: We have to continue that engagement today, and we're in the very fortunate position of having Senator Kristina Keneally with us today who has kindly agreed to deliver Chris' speech at very short notice. After a distinguished career in politics spanning more than 18 years, Kristina's, of course, well known to all of us as the ex-Premier of New South Wales and was recently appointed to the

Senate. Congratulations. I've always admired Kristina as a strong woman in leadership and a female role model, I think, to myself and other generations of women, so I'm delighted to welcome Kristina Keneally to the stage.

Kristina: Thank you very much Melinda. Thank you all for being here. I have the great delight of filling in for Chris Bowen. Once on Sky News I filled in for Chris Kenny. I suspect that was slightly more shocking to the viewer, so hopefully today goes a bit better. I am going to rely on Chris' notes. I find that senators in my position who freelanced, find themselves out of a job, so I might seek to avoid that. It was tempting as it is to announce a few new policy ideas up here. I do want to begin by acknowledging the traditional owners of the land in which we meet, the Gadigal people and pay my respect to their elders, past and present. I thank you, Sally and Melinda, for having Labor at this breakfast today, and I thank all of you for attending.

Kristina: Now, we do want to touch on some of the opposition policy priorities and our priorities ahead of the upcoming budget, but also talk to some of the specific issues in the financial services sector in the latter half of these remarks. We do hope that Chris will be here in time for the Q&A. Now, many of you have heard us talk about budget repair. It is, of course, the issue that tends to dominate our political debate. It is necessary in Australia for several reasons. Currently, Australia spends more than one billion a month on dead interest. That's money that could simply be better spent elsewhere. This interest comes from debt that is over half a trillion dollars. We also need to protect the AAA credit rating. Losing the AAA rating, as you know, would increase the borrowing costs of the commonwealth, the states, and most likely our banks and major financial institutions as well as being a blow to confidence. Now, returning the budget to structural balance is also important in terms of giving future treasurers like Chris Bowen and governments the flexibility and buffer needed to respond to global downturns in an uncertain world.

Kristina: Now, we're currently enjoying the benefits of the first globally synchronised improvement in the economy in many years, but as a medium-sized trading nation, we need to be prepared for the inevitable disruption in the coming years. We do need to make difficult decisions to fund important initiatives; both social initiatives and pro-growth initiatives with an aging population and health cost pressures. For example, we in Labor believe that better and fairer schools funding is not only a fundamentally important social justice initiative but a vital investment in human capital and an important driver of economic growth. Now, much of the public discussion and debate around the budget focuses on the short-term. "What year will we get back to surplus? Will there be any slippage or improvement?" like getting back to surplus is a once off task and having been achieved, it can be ticked and flicked and then we can all move on. Now, it's easy to understand why that is the case, but we have a fundamentally different view, and I want to take a few moments to share with you Labor's views about the longer term, budget challenge.

Kristina: Even if the return to surplus trajectory, which is currently in the budget ... and let me just say, this is predicated on an optimistic forecast of wages growth somehow warring back into action in the coming years. The longer term task is very significant. Even on the Government's own projections, the surplus won't surpass half a percent of GDP over the next decade. Now, that's worth contemplating for just a second here. The Government's own fiscal rules used to stipulate the goal of a budget surplus of one percent of GDP, but now the projected surpluses for the next decade won't even surpass half of that and remain thin and subject to shocks and downside risks. The Government's own 2015 intergenerational report using the Government's own policies as the baseline, found that the Government could be expected to fall back into deficit in the mid-2020s and with current policies, that could be expected to be as large as six percent of GDP by 2054-55.

Kristina: This budget challenge won't be fixed by half measures, not by tinkering or shaving a million dollars off a program here or there, or raising an extra million here or there. It's going to require that we pull some big levers. It requires structural changes, which build over time to substantially improve the budget in the medium term and requires a calm, methodical, and bold analysis of those measures, which were baked into the budget in the good times including the mining boom, which were based on revenue projections at the time but are now unaffordable.

Kristina: That's why we've been leading the debate from opposition on things like negative gearing, capital gains, and family trusts. Leading the economic debate from opposition that we are seeking a mandate and the moral authority from the Australian people to do this big and important reform to budget repair. Only three weeks ago, Bill Shorten and Chris Bowen announced Labor's dividend imputation policy. This is a policy, which closes down a concession that gives cash refunds for excess dividend imputation credits. This will improve the budget by nearly 56 billion dollars over the medium term. It's a big ... It's an important policy change. No doubt it interests many people in the room, so I'll spend a few minutes talking about it today.

Kristina: Leaving in place the fully refundable dividend imputation system just puts more structural pressure on the budget now and into the future. Labor's prepared to pull these levers to repair the budget in a fair way. 95 percent of the savings from Labor's reforms to dividend imputation, after the pensioner guarantee announcement, comes from the wealthiest 20 percent of Australians. Here's a few other important facts. We're the only country in the world with a fully refundable dividend imputation system. No other country in the world returns a tax credit to people who have paid no income tax. Refundability is also an anomaly in the Australian tax system. The vast majority of tax concessions are not refundable. You can use them to get your taxable income down to zero but not to generate additional cash refunds. Take a tradie, for example, who's got considerable expenses in materials and petrol. They can claim expenses and can, theoretically, get their taxable income down to zero, but they are not going to get a cash refund for additional deductions after that.

Kristina: Dividend imputation was introduced in 1987 but wasn't refundable until 2000. When the Howard government started sending refunds to people who hadn't paid tax, it cost half a billion dollars a year. It now costs close to six billion dollars with the cost projected to blowout to eight billion by the end of this decade. That's more than the commonwealth spends on public schools. It's more than we spend on childcare. It's three times what we spend on the Australian federal police.

Kristina: I also want to deal with the myth that someone ending imputation refundability is a return to double taxation. This, frankly, is an absurd argument. Refundability doesn't avoid double taxation. It avoids taxation at all. Let me explain this point. Labor introduced dividend imputation in 1987 because taxing income in the form of dividends was clearly double taxation, but people who don't pay income tax are not taxed on their dividends either. Refundability effectively means that no tax is paid on the corporate profits in question. Let's take this a step further. Imagine for a second, a theoretical world in which every share in Australia was held by someone who paid no income tax. The company pays tax at the prevailing corporate rate. The company distributes dividends to its share holders who are all entitled to a tax refund for the franking credits, and the tax refund is paid to the shareholder. The end result is that all the tax paid by the company has been refunded to its shareholders and not only has the company not been taxed twice, it hasn't even been taxed once and so, our dividend imputation reform is a continuation of our willingness to take the tough decisions on budget repair and seek a mandate to implement them.

Kristina: Our capital gains tax reform will return nearly 12 billion dollars to the budget over the medium term. That of course, is a concession where 70 percent of the benefits accrue to the top 10 percent of income owners. Our negative gearing tax reform will return nearly 26 billion to the budget over the medium term. Again, the benefits accrue to the top 10 percent of income earners and this concession together with capital gains tax discount, leaves the prospective home owners at a distinct disadvantage trying to get into the housing market. Our discretionary trust reform will make the tax system fair by making it harder for wealthy individuals to minimise their tax; returning 17.2 billion to the budget over the medium terms. We also have plans to cap the amount people can claim as a tax deduction for costs incurred in managing their tax affairs at three thousand dollars. We've also led a debate on multinational tax reform with our plans to amend the current thin capitalisation rules to reduce the amount of debt that multinational companies can claim as deductions in Australia generating over four billion dollars over the medium term for the budget.

Kristina: Now, Jim Chambers and Chris Bowen will be saying more about fiscal rules and will provide a fully costed and verified statement on the impact of our policies on the budget before the next election. We can say now that we can be regarded as the major political party; more serious about the task of fiscal repair and budget consolidation because of our willingness to take these tough decisions. The liberal party that once held budget repair as its hallmark now offers little more than 65 billion dollar tax cut that puts the medium term budget at risk; a 65 billion dollar tax cut that they haven't been able to get the parliament to agree to in the past two years. Of course, what the Government actually offers is a shift in the burden of taxation from corporations to individuals. The corporate tax cut will cost 65 billion over the next decade, but the Government's personal tax rise in the guide of an increase in the Medicare levy will raise 44 billion dollars in total with someone earning 70 thousand dollars a year paying an additional 350 dollars in income tax.

Kristina: Now, there's a better way in our view to stimulate investment through tax reform. Recently Bill Shorten and Chris announced Labor's plans to introduce an Australian Investment Guarantee. With Labor's guarantee, all businesses in Australia who invest in Australia will be able to immediately deduct 20 percent of any new eligible asset worth more than 20 thousand dollars. The balance of the investment will be depreciated in line with normal depreciation schedules from the first year. Under Labor's Australian Investment Guarantee, only companies that make the decision to invest in Australia will benefit from this tax relief. This is in stark contrast to the Government's company tax handout where up to 60 percent of the benefit becomes a windfall gain for foreign shareholders. Assets that will be eligible for the immediate deduction will include tangible machinery, plant and equipment, and intangible investments such as patents and copyrights.

Kristina: Unlike the previous asset write-off schemes, which have been for a limited time period, Labor's Australian Investment Guarantee will be permanent and ongoing. Our Australian Investment Guarantee is pro-growth, pro-jobs reform that will reward business that make new investments in Australia. Investing in our education and training systems is also a Labor priority. A skilled and innovative workforce will contribute to productivity growth in the longer term, and that's why Labor will invest in our people through properly funding schools, universities, and TAFE and boosting apprenticeships. Of course, Australia's economic prosperity also relies on a strong and resilient financial sector. Our vision is for a sector that is profitable, innovative, responsive, and well regulated. It must support Australians and businesses in critical areas such as banking, borrowing, insurance, and superannuation. The financial services industry touches the lives of nearly every Australian and every business, and that's why it's important that we have trust and confidence in this sector, not only to be financially strong but also to recognise the responsibility it has to facilitating and supporting the economic and financial transactions of millions of Australian people and businesses.

Kristina: As you know, Labor has had concerns about some activities in the banking and financial sector for some time. Labor led the way in calling for a Royal Commission because we believe that it was the only way to get to the bottom of the scandals and the claims of misconduct that have been raised, and we still believe it. Unfortunately, for over 600 days, the Government resisted taking the hard decision to call the Royal Commission. Instead, it announced a stream of reviews and piecemeal measures; many in what seemed to be a rushed and ad hoc manner. In the meantime, the delay has meant continuing uncertainty. If the Royal Commission had been established when Labor suggested it, it would now be over, and the Government and the financial sector could have been getting on with implementing its recommendations.

Kristina: We were disappointed that the Government explicitly excluded the world commission from inquiring into matters that relate to macro-prudential policy and regulation. As Chris said last year, we believe the time is right for a proper, considered, and comprehensive examination of the financial, regulatory architecture. This is still the case given the lack of public scrutiny over recent changing roles and responsibilities of our regulatory agencies. Not allow the world commission to look into these issues is a missed opportunity. Overall though, it is critical that the world commission be comprehensive and rigorous in its investigation as only a thorough review will provide the starting point for change and for restoring community trust in the sector.

Kristina: Another review we will be watching closely is a productivity commission into competition in the Australian financial system. Its draft report raised some issues for consideration. While we've been clear that Labor won't support moving away from the Four Pillars policy, which in our view has integral to financial stability, we will await the final recommendations on other ways to strengthen competition is this sector. The draft report has also raised the question of whether the current financial regulatory arrangements are providing a sufficient focus on competition and whether the ACCC should play a greater role with new proactive functions or if competition should be added to the mandate of ASIC.

Kristina: Any changes to the regulators should not be taken lightly particularly in the absence of a comprehensive review of the financial regulatory architecture we believe is required. Of course, the productivity commissions draft report also highlighted one of the consequences of this government's failure to address negative gearing. The interaction between APRA's macro-prudential measures, the banks increased interests rates in response, and negative gearing has effectively seen taxpayers subsidise windfall gains to the banking sector of up to 500 million dollars a year. 500 million dollars is a significant amount of funding particularly given the imperative of budget repair.

Kristina: We've also taken decisions on superannuation, tax concessions, and announced these well in advance of the next election. In 2016, we made it clear that we oppose the Government's measures to allow catch up concessional contributions and tax deductibility on personal superannuation concessions contributors. We will also lower the annual non-concessional contributions cap to 75 thousand dollars and further lower the high income super contribution threshold to 200 thousand dollars. Labor's measures will make the system fairer while also contributing to budget repair that is fair. We believe in increasing the superannuation guarantee to 12 percent when fiscal circumstances allow, which will greatly assist in maximising people's retirement incomes in the future.

Kristina: What we don't want to see is this government pushing out the increases to the superannuation guarantee again. Under Labor's former timetable for increasing the super guarantee, we would've already reached 11.5 percent on 1 July this year. However with the Government's delays, it is now not set to start increasing until 2021-22 and won't reach 11.5 percent until 2024-25. We know from history that it is only Labor that has increased the rate of the superannuation guarantee and each time, the liberals have opposed it. We will be watching to see whether the Government tries again to delay the increases to the superannuation guarantee as a desperate, short-term fix for their budget mess.

Kristina: In addition to increasing the superannuation guarantee, we need to start adjusting the disparity and retirement incomes between men and women. We know that women's retirement income suffer because women are overrepresented in low paid, part-time, and casual work, take more career breaks to care for children or elderly parents, and experience pay inequality across the board. These are complex issues, and there is no easy solution. However, it is an area that Labor is looking at, and we will have more to say on this in the future.

Kristina: Now, I'm aware the sector's been undergoing a period of change including the implementation of the Government's 2016 superannuation changes, and we do hear the calls for greater certainty. It's one of the reasons we're being clear and upfront before the election about our plans for superannuation. It's also why we've said that we'll introduce a council of super custodians, which would advise on changes to superannuation in the context of the Government's five yearly intergenerational reports. A council of superannuation custodians would help maintain stability in a superannuation policy settings and to guide lawmakers about the best approach to policy changes. It would also allow future changes to superannuation to be more thoroughly considered and done in a timeframe that allows people to invest their money with greater certainty and without the added concern that the Government may change the goalpost on a frequent basis.

Kristina: I'd also like to acknowledge the work being led by the financial sector when it comes to insurance. For example, the insurance council is doing important work reviewing the general insurance code of practice. Following the Cory review, the

Australian Banking Association is working towards presenting a revised code of banking practice, and the financial services council and in industry is working on implementing the life insurance code of practice, which became binding on FSC members from 30 June last year. This code includes responsibilities relating to sales practices, processing timeframes, claims handling, and some medical definitions. We recognise that in large sectors with a number of participants, reaching agreement on new codes and guidelines about what are complicated issues is never simple, however, we do give the sector great credit for the work that has been done. I understand that the FSC has already been working on enhancements to a code 2.0.

Kristina: Last week, the parliamentary joint committee on corporation and financial services released its review into life insurance. The committee, including our Labor colleagues Deb O'Neill, Terri Butler, Matt Keogh, and Chris Ketter, has completed a comprehensive report. The committee worked through a number of complicated issues including the treatment of mental health concerns, obtaining medical history information from GPs, disclosure of genetic test results, and life insurance in super. I want to acknowledge the contribution and engagement of the financial services council and its members in the life insurance sector to the inquiry over the last 18 months. We'll take time to look closely at the committee's recommendations. However, I do want to speak to one issue raised by that committee today.

Kristina: The previous Labor government introduced legislation into the parliament in 2013 to remove the exemption from unfair contract term laws for general insurance contracts. However, after the change of government, the bill was dropped by the coalition. Last year, a Labor-led senate inquiry reiterated that the exemption for general insurance from unfair contract terms laws should be removed and in response, the Government has agreed to consult on proposals. The joint committee has also recommended the removal of this exemption in relation to life insurance. As the industry has pointed out, the specific features of insurance must be kept in mind when designing legislation to the deliver this policy. However, we believe it is long past time that the consumer protections against unfair contract terms were applied to insurance contracts.

Kristina: Ladies and gentlemen, in conclusion, Labor's been taking the time to develop our policies well in advance of the next election and to be honest with the Australian people. We will not be a small target. We are willing to tackle the big issues and do what is right for our future. We'll take the hard decisions needed to pay down debt and strengthen the budget. We have comprehensive economic agenda for growing economy, stimulating investment and jobs, and building closer engagement with Asia. The financial sector will be critical in our work in all of these areas and alongside our economic team including, of course Chris Bowen, we'll look forward to continuing to work with all of you as we outline our vision and our policy agenda for Shorten Labor government. Thank you very much for your time today.