Restoring trust in Australia's banks

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Australian Financial Review (AFR)
Friday 1st February 2019
918 words
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Hayne commission

Trust is at the heart of financial systems, but so is the flow of credit.

Josh Frydenberg

Today, Commissioner Kenneth Hayne will present to the Governor-General his final report into Misconduct in the Banking, Superannuation and Financial Services Industry. It follows a year-long inquiry including 68 days of hearings, calling over 130 witnesses and reviewing more than 10,000 public submissions.

The royal commission has shone a light on misconduct in the financial sector, exposing a level of compliance that fell below community expectations. The interim report released in September and subsequent hearings have highlighted the law as being too complex, the regulators too passive and too often a culture permeating the financial services sector that puts profits before people.

Examples of fees for no service, fees charged to dead people and the misselling of insurance to tens of thousands of customers, even though they were ineligible to claim against the policy at the time they took it out, have shocked the community.

While questions have been raised over the course of the commission in relation to the adequacy of the rules around conflicts of interest and duty, remuneration and penalties, the commissioner has made clear in his interim report that "much more often than not, the conduct now condemned was contrary to the law".

In considering the commissioner's final report, the government's principal focus is on restoring trust and confidence in our financial system and delivering better consumer outcomes.

Trust is at the core of the financial system and, as we have seen, once it is lost it is not easily regained. Customers need to be able to trust that the institution or individual they are dealing with is putting their interests first. The royal commission has shown that too often this has not been the case.

In responding to the royal commission, the government will also consider the broader implications for the provision of credit. We must ensure affordable and accessible access to finance for households and businesses. The free flow of credit is critical to the health of the economy.

While updated APRA figures released yesterday show total bank credit grew 4.5 per cent in the year to December 2018, it is below the 10-year average annual growth rate of 6.6 per cent. So too, with business credit growth, which is 4.8 per cent through the year and below its 20-year average of 6 per cent.

We must ensure affordable access to finance for households and businesses.

Competition in the financial sector is also key to economic growth and, in responding to the royal commission, the government will be looking to maintain competition and indeed enhance it where possible.

It must be recognised that there are already many important reforms to the financial sector that have either been recently implemented or are under way. Many of these reforms followed the recommendations of the Murray Inquiry into the Financial System, which the Coalition initiated on coming to government in 2013.

For example, the Bank Executive Accountability Regime (BEAR) has been legislated and began on July 1, 2018, ensuring greater accountability for senior bankers. The Australian Financial Complaints Authority (AFCA) opened its doors in November last year and provides a one-stop shop for dispute resolution, giving customers access to a timely and free dispute resolution mechanism. With the ability to look back at conduct over the last six years and make binding determinations on financial institutions regarding compensation, it is a game-changing reform in favour of the consumer.

Additional funding of $170 million has been provided to ASIC, APRA, the Commonwealth Director of Public Prosecutions and the Federal Court to pursue misconduct and ensure our regulators are appropriately resourced to hold those engaged in misconduct to account. A new chair and two new deputy chairs of ASIC have also been appointed, bringing a new approach to enforcement.

Legislation is before the Parliament to increase penalties, both civil and criminal, for corporate and financial misconduct. These changes will see criminal penalties double and civil penalties increase more than tenfold for corporations and more than fivefold for individuals, representing the most significant increase in nearly two decades.

A new product intervention power for ASIC is also before the Parliament, which will allow the regulator to intervene before consumers suffer harm. This will complement the Coalition's new design and distribution obligation of financial product providers that will ensure products suit their target market.

In the $2.7 trillion superannuation sector, we are also committed to driving better outcomes for members with legislation before the Parliament. Our bills will prevent people's superannuation savings being eroded by inappropriate insurance policies; increase APRA's powers to hold funds to account for poor performance; create new civil and criminal penalties for trustees who break the law; banning exit fees and capping fees for low balance accounts; and reuniting members with billions of dollars of their money which to date has been out of reach in lost superannuation accounts.

The government has a significant and comprehensive reform agenda that reflects our determination to create a stronger and fairer financial system. Employing 450,000 people and representing 9.5 per cent of GDP, Australia's financial sector is the economy's largest. It is vitally important that the financial system is operating effectively and in the best interests of all those who rely on it. I look forward to receiving the royal commission's report and, through the government's response, working to restore trust and confidence in Australia's financial system.

Josh Frydenberg is the federal Treasurer.