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Treasurer

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SPEECH

RESTORING TRUST IN AUSTRALIA'S FINANCIAL SYSTEM

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CHECK AGAINST DELIVERY

Today, the Government is releasing the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

It's a scathing assessment of conduct driven by greed and behaviour that was in breach of existing law and that fell well below community expectations.

The price paid by our community for this misconduct is immense - and goes beyond just the financial. There have been broken businesses, and the emotional stress and personal pain has also broken lives.

In disbelief, the nation has heard evidence presented before the Commission of: hundreds of millions of dollars in fees for no service, companies misleading and obstructing regulators, the charging of dead people, the sale knowingly of worthless insurance policies and who could forget the appalling audio recording of a young man with Down Syndrome being subject to high-pressure sales tactics resulting in the purchase of a financial product that he clearly did not want, need or understand.

This is why the community's trust in our financial institutions has been lost and this is why it must now be restored. From today, the banking sector must change, and change forever.

In Commissioner Hayne's own words, "there can be no doubt that the primary responsibility for misconduct in the financial services industry lies with the entities concerned and ... their boards and senior management."

The “undeniable fact,” Commissioner Hayne said, is that “it is those who engaged in misconduct who are responsible for what they did and for the consequences that followed.”

This has resulted in the Commissioner making more than 20 referrals to ASIC and APRA covering a range of misconduct from fees for no service to best interests duty breaches and misleading and deceptive conduct.

My message to the financial sector today is that misconduct must end, and you must put the interests of consumers first. Consumers must be treated honestly and fairly.

My message to the community today is that your government is committing to making this happen.

In responding to this report and taking action on all 76 recommendations, we are putting in place the legislative framework which provides the regulators with the powers and the resources to hold those who abuse our trust to account.

If nothing else, the public is entitled to expect that the law is applied and enforced.

In outlining the Government’s response to the Royal Commission, I want to make clear that the Government’s principal focus is on restoring trust in our financial system and delivering better consumer outcomes, while maintaining the flow of credit and continuing to promote competition.

These objectives are vitally important to the health of our economy and therefore to the health of our community.

Commissioner Hayne’s recommendations and the Government’s response advance the interests of consumers in four key ways:

First, they strengthen and expand the protections for consumers, small business and those in rural and remote communities.

Second, they raise accountability and governance standards.

Third, they enhance the effectiveness of regulators.

Fourth, they provide for remediation for those harmed by misconduct.

It is important to note that Commissioner Hayne’s recommendations do not include the removal of the twin peaks model, structural separation, the extension of national consumer credit laws to SMEs or changes to the test for responsible lending.

The Government is taking action on all 76 recommendations of the Royal Commission.

First, in terms of enhancing consumer protections, we are doing the following:

- With regards to mortgage brokers we are putting in place a best interests duty, banning trailing commissions and volume based bonuses on new loans from 1 July 2020. In terms of moving to a borrower pays remuneration structure, there will be a review in three years of the implications of doing so, bearing in mind the Productivity Commission, Murray and Sedgwick reviews all raised concerns about the effects on competition of a change to a borrower pays model.
- We are ending the grandfathering of conflicted remuneration for financial advisers, effective from 1 January 2021.
- In terms of superannuation we will ensure fund members only have one default account for new members entering the system - a recommendation that mirrors the Productivity Commission's report into superannuation.
- We are prohibiting the deduction of advice fees from MySuper accounts.
- Hawking for superannuation and insurance will be prohibited, preventing some of the most disturbing stories the Royal Commission heard of vulnerable people being sold on an unsolicited basis policies they didn't need. Changes will also be made to the sale of add-on insurance products so that their sale is separated by a period of time from the sale of the original product. For example, people today buying a mobile phone are being sold basic screen cover insurance which can cost more than the replacement of the screen itself.

There will also be major changes to how the banks deal with distressed agricultural loans. This will include:

- a new national farm debt mediation scheme;
- a requirement that banks do not charge default interest on agricultural loans when drought or other national disaster has been declared;
- that valuations of agricultural land are independently determined from the lending processes;
- that banks ensure distressed farm loans are managed by people experienced in agriculture; and
- that receivers are only appointed as a remedy of last resort.

Second, enhancing accountability.

Consumers rightly expect they be treated fairly and, when they're not, that the culprits be held to account.

This is why, from 1 July last year, the Government put in place the Bank Executive Accountability Regime (or BEAR). The BEAR holds senior executives within large banking institutions personally responsible for conduct that occurs on their watch, this includes sanctions as to their remuneration and possible disqualification.

Commissioner Hayne has recommended that BEAR be extended to insurance and superannuation entities and that ASIC should have joint responsibility with APRA for oversight of the BEAR.

With respect to superannuation, Commissioner Hayne also recommends that both trustees and directors be subject to civil penalties for breaches of their duties.

The Government has legislation before the Parliament extending for the first time these penalties to directors and we will now amend the legislation to include trustees.

A new system of discipline for financial advisers will also be put in place with stronger industry reference checking, greater reporting of serious compliance concerns and a new single disciplinary body with which all advisers must be registered.

Third, ensuring strong and effective financial regulators.

Commissioner Hayne has found the regulators wanting, but has also recognised that they are taking action to change.

The Government has recently appointed a new Chair and two Deputy Chairs of ASIC as well as a new Deputy Chair of APRA. We have committed \$170 million in additional funding for our regulators and agencies equipping them for the task ahead and will work with our regulators to ensure they remain appropriately resourced.

The Government accepts Commissioner Hayne's recommendation to establish a new three person oversight body for ASIC and APRA that will monitor their performance and effectiveness and report to government.

Capability reviews of our regulators will also be conducted every four years with the Government announcing today that Graeme Samuel AC will lead a capability review of APRA, commencing shortly.

With respect to superannuation, the regulatory roles and powers of ASIC and APRA will be clarified with ASIC to become the primary conduct regulator.

The Government today is also announcing that we will extend the jurisdiction of the Federal Court to cover corporate criminal misconduct. This will expedite cases that are currently considered by state courts and commonly take over two years to be heard.

Fourth, providing for remediation for those harmed by misconduct.

For the first time, the Government is establishing a compensation scheme of last resort. We will expand the remit of Australian Financial Complaints Authority (AFCA) so that they can award compensation for successful claims going back 10 years, consistent with the period examined by the Royal Commission.

AFCA, which today can make binding determinations on industry of up to \$500,000 for individuals, \$1 million for small businesses and \$2 million for agricultural businesses, will now administer this compensation scheme of last resort.

Let me be clear, personal responsibility for financial decisions rests with those who make them. However, consumers and small businesses who suffer harm as a result of misconduct will now have access to redress.

The Government will also compensate those individuals who had a prior unpaid determination in their favour by the predecessor bodies of AFCA. These people were never paid because the institutions responsible for misconduct were unable to pay. This will see almost 300 consumers finally receive compensation totalling around \$30 million as a consequence of prior misconduct. Compensating this cohort of people was supported by the Ramsay Review and also endorsed by Commissioner Hayne.

Implementation of the Government's response will be led by a Treasury Financial Services Implementation Taskforce.

Employing 450,000 people and representing nearly 10 per cent of our nation's GDP the Australian financial system is vitally important to every Australian. The Royal Commission has not called into question the stability and strength of our system but what it has done is shine a light on misconduct which cannot be tolerated.

Through both our actions to date and our response today, we are demonstrating our commitment to ensuring the financial system is working for all Australians and is one that they can trust.

Finally, I would like to thank Commissioner Hayne for the outstanding manner in which he has conducted the Royal Commission and express my gratitude for the tireless work of those involved.

I also wish to acknowledge all of those individuals who provided submissions and came forward to give evidence.

Their stories and experiences drive home the necessity for immediate change.

Ends