



# Budget 2017

## Banking and Financial Services

# A more accountable and competitive banking system

The Government will introduce a new dispute resolution framework that will empower bank, financial services and superannuation customers. The Government will also implement a package to increase accountability in the financial sector and make it more competitive. This will mean more choice, better services and greater protections for all Australians.

### Improving accountability and competition

The financial services sector affects all Australians and is a backbone of the economy. For it to work effectively, Australians need to be confident that financial services providers will serve their interests. Too often banks and the sector have not met those expectations.

Building on the major financial sector reforms implemented last year, the Government is taking significant new action to ensure the sector meets the expectations of the Australian community.

The Government will create a new dispute resolution framework. There will be a new one-stop shop – the Australian Financial Complaints Authority (AFCA) – for external dispute resolution and greater transparency of internal dispute resolution by financial firms.

The Government will legislate a new Banking Executive Accountability Regime that will make senior bank executives more accountable and subject to additional oversight by the Australian Prudential Regulation Authority (APRA).

The Government will also introduce a number of reforms to boost competition and choice for Australian consumers in the financial system.

### Improving dispute resolution

The Government will introduce major reforms to provide customers with access to fair dispute resolution in Australia by introducing a new one-stop shop.

#### One-stop shop

A new one-stop shop will deal with all financial disputes, including superannuation, and provide access to free, fast and binding dispute resolution.

The new body AFCA will be able to hear disputes of a higher value so that more consumers and small businesses will have their disputes heard, and if they have wrongfully suffered a loss, access fair compensation.

Financial firms will be required to be members of AFCA, and its decisions will be binding on all firms.

AFCA will be governed by an independent board, with an independent chair and equal numbers of directors with industry and consumer backgrounds, and be wholly funded by industry.

AFCA will commence operations from 1 July 2018. The existing dispute resolution bodies will continue to operate after 1 July 2018 to work through their existing complaints.

#### Enhanced ASIC oversight

ASIC will be provided with stronger powers to oversee the new one-stop shop. ASIC will have a general directions power to ensure AFCA complies with legislative and regulatory requirements.

#### Internal dispute resolution

To increase accountability, the Government will also legislate to require financial firms to report to the Australian Securities and Investments Commission (ASIC) on internal dispute resolution outcomes.



### Cameo: An improved dispute resolution framework

Sarah was a small business owner with a complaint with her bank over the interest charges on her \$3 million loan. As the loan exceeded \$2 million, Sarah was unable to access external dispute resolution and although Sarah was eventually successful in having her complaint resolved, she was forced to go through a lengthy and expensive court process.

Under the Government's new framework, small business disputes related to loans of up to \$5 million will be heard by the one-stop shop, which will be able to award compensation of up to \$1 million. This will ensure more small businesses have access to free, fast and binding dispute resolution.

## Banking Executive Accountability Regime

#### Registration of senior executives

Senior executives and directors of authorised deposit-taking institutions (ADIs), including all banks, will be required to be registered with APRA. The ADI will have to advise APRA prior to making a senior appointment.

This will mean APRA will have visibility of all ADI senior appointments prior to them being made.

Where senior executives have been found not to have met expectations they will no longer be able to be registered or employed in senior roles.

ADIs will be required to provide APRA with accountability maps of senior executives' roles and responsibilities to enable greater scrutiny at the time of each person's appointment and oversight of problems that emerge under their management.

#### Enhanced powers to remove and disqualify

APRA will be given stronger powers to remove and to disqualify senior executives and directors. These powers will apply to all institutions regulated by APRA.

Persons removed or disqualified under these powers would have to appeal to the Administrative Appeals Tribunal to have a decision reviewed.

#### Increased expectations and penalties

The new regime will establish expectations on how ADIs and their executives and directors conduct their business consistent with good prudential outcomes.

These expectations would cover matters such as conducting business with integrity, due skill, care and diligence and acting in a prudent manner.

A new civil penalty will be created with a maximum penalty of \$200 million for larger ADIs, and a maximum penalty of \$50 million for smaller ADIs, that fail to meet these new expectations, increasing incentives for ADIs to put in place processes to ensure they conduct their operations appropriately.

APRA will also be able to impose penalties on ADIs that do not appropriately monitor the suitability of their executives to hold senior positions.

## Remuneration

The Government will mandate that a minimum of 40 per cent of an ADI executive's variable remuneration – and 60 per cent for certain executives such as the CEO – be deferred for a minimum period of four years.

This will increase the financial consequences – by preventing bonuses being paid – for decisions which may take a long time to materialise. Executives will place greater focus on long-term outcomes than when there are shorter deferral periods.

APRA will also be given stronger powers to require ADIs to review and adjust their remuneration policies when APRA believes such policies are not appropriate.

## Funding

The Government will provide \$4.2 million over four years to APRA to implement these new measures.

The Government will also provide APRA with \$1 million per annum for a fund to ensure it has the necessary resources to enforce breaches of the new civil penalty provisions.

## Competition in the financial sector

### Open data

The Government will increase consumer choice and improve competition in banking by giving customers access to and control over their banking data by introducing an open banking regime in Australia.

Increased access to data will improve the information available to consumers and better enable innovative business models to create new products tailored to individuals.

The Government will commission an independent review to recommend the best approach to implement the open banking regime to report by the end of 2017.

### Competition inquiries

#### Productivity review

The Government has tasked the Productivity Commission to commence a review on 1 July 2017 of the state of competition in the financial system.

The Commission is to review competition with a view to improving consumer outcomes, the productivity and international competitiveness of the financial system and economy more broadly, and supporting ongoing financial system innovation, while balancing financial stability objectives. The Productivity Commission will have 12 months to report to Government.

This also delivers on a Government commitment in response to the Financial System inquiry for such a review.

### Regular ACCC inquiries

Building on the Commission's broad review of competition in the financial system, the Government will provide \$13.2 million over four years to the Australian Competition and Consumer Commission (ACCC) to establish a dedicated unit to undertake regular inquiries into specific financial system competition issues.

It will facilitate greater and more consistent scrutiny of competition matters in the economy's largest sector, which has been lacking to date.

This implements a recommendation of the House of Representatives Standing Committee on Economics report Review of the Four Major Banks.

### FinTech

The Government is also implementing a range of measures to support the Australian FinTech sector. See the Innovation and FinTech fact sheet for further information.