



Strong banks – strong Australia

House of Representatives Standing Committee on Economics

Review of the four major banks (second report)

Australian Bankers' Association

ABA08QW: Please advise on the role that the ABA will play in implementing the recommendations of the Sedgwick review.

Answer: The independent review of product sales commissions and product based payments in retail banking (Sedgwick Review) has been commissioned by the ABA on behalf of the banking industry¹.

The terms of reference specify that the objectives of the independent review are to:

- Build on the Future of Financial Advice (FOFA) reforms by identifying and collating the existing product sales commissions and product based payments that apply in relation to the sale, offer and distribution of identified banking products to retail and small business customers.
- Assess whether and how product sales commissions and product based payments in retail banking could lead to poor customer outcomes, including identifying and collating examples as part of building a framework to assess whether the payment could result in poor customer outcomes.
- Identify and test options for strengthening the alignment of remuneration and incentives and customer outcomes by either removing or changing those product sales commissions and product based payments which could lead to poor customer outcomes.
- Identify options to guide potential responses for banks, including whether regulatory approvals or other actions are needed to enable banks to make any changes or take actions to address the relevant issues.

Mr Stephen Sedgwick AO was appointed the independent reviewer in July 2016.

The final report for the review is expected to be published in April 2017.

The independent reviewer is expected to make findings about remuneration structures and practices in retail banking. Additionally, the reviewer is expected to make some observations about remuneration and payment arrangements in mortgage broking and insights about remuneration structures more broadly, to assist banks meet their commitment to have overarching principles on remuneration and incentives to support good customer outcomes and sound banking practices. The reviewer is also expected to provide indications about how any changes to remuneration practices could be made, noting that banks must meet their legal obligations, including competition laws.

Given the ABA does not have the final report, we are not able to indicate at this time what role the ABA may play in implementing the findings of the independent review. However, it is anticipated we will work with banks in preparing an industry response on the final report and depending on what next steps may be required, assist the industry. Next steps may require the industry to seek regulatory approval from the Australian Competition and Consumer Commission (ACCC) and/or legislative reform to facilitate industry action. The industry will need to seek legal advice on how to manage any next steps.

¹ <http://retailbankingremreview.com.au/>