

1. Introduction

- 1.1 Australia's major banks – the Commonwealth Bank of Australia (CBA), Australia and New Zealand Bank (ANZ), National Australia Bank (NAB) and Westpac – are full-service institutions that offer:
 - retail, corporate and commercial banking services;
 - financial advice;
 - institutional banking; and
 - wealth management (including superannuation).
- 1.2 They are extremely dominant in Australia's financial system. As of September 2016, they collectively held around:
 - \$2.8 trillion in Australian resident assets (equal to approximately twice Australia's annual gross domestic product (GDP));
 - \$1.2 trillion in mortgages (about 83 per cent of the market); and
 - \$570 billion in business loans (about 74 per cent of the market).¹
- 1.3 Their market dominance, coupled with a number of structural features of Australia's financial system, has left them with significant market power.
- 1.4 The House of Representative's Standing Committee on Economics' (the committee) concerns about the major banks, however, extend well beyond their use of market power.

¹ APRA, *Monthly Banking Statistics September 2016*, October 2016, Table 2.

- 1.5 Over the past decade numerous scandals have occurred and allegations have been raised in relation to: poor financial advice; the maladministration of life insurance claims; and market manipulation (among other issues).
- 1.6 These continued claims of misconduct suggest that the culture of these institutions is often not one that has consumers at its centre. This must be rectified.

Conduct of the Inquiry

- 1.7 On 13 September 2016, the Treasurer formally requested that the committee undertake an at least annual inquiry into the performance and conduct of Australia's major banks.
- 1.8 Between 4 October and 6 October 2016, the committee held three-hour public hearings with each of the major banks.
- 1.9 The proceedings of the hearing were webcast over the internet, through the Parliament's website, allowing interested parties to view or listen to the proceedings as they occurred. The transcripts of each of the public hearings are available on the committee's website:
http://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/Four_Major_Banks_Review/Public_Hearings.
- 1.10 Following these hearings, the committee sent letters to each of the major banks' Chief Executive Officers (CEOs) seeking responses to questions on notice as well as a range of additional information on specific issues of concern to the committee including:
 - details on the major banks' investigations into specific instances of misconduct;
 - consequences for responsible senior executives when misconduct has occurred;
 - examples of the balanced scorecards that the banks use to appraise their employees;
 - loss rates on small and large business loans; and
 - internal whistle-blowing processes.

1.11 The banks' responses to these additional requests, excluding information that was reported to be commercial in confidence, are available on the committee's website:

http://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/Four_Major_Banks_Review/Documents.

Reader's guide and structure of the report

1.12 Section 2 investigates the complexity of Australia's existing system of External Dispute Resolution (EDR) schemes and concludes that it is not working effectively for consumers. In its place, the committee recommends that the Government establish a 'one stop' Banking and Financial Services Tribunal.

1.13 Section 3 considers whether Australia's regulatory system does enough to hold senior executives to account for institutional failures. The committee recommends that Australian Financial Services Licence (AFSL) holders be required to publicly report on breaches and name the relevant division's senior executives.

1.14 Sections 4, 5 and 6 consider competition in Australia's banking sector. In particular, they focus on the structural features of Australia's financial system that act as barriers to competition and make recommendations to increase the competitiveness of the market. These include:

- regular monitoring and reporting on market practices that may be limiting competition in the banking sector;
- the introduction of a data sharing framework to empower consumers; and
- a review of bank licensing and other regulatory entry requirements.

1.15 Sections 7 and 8 explore the major banks' Internal Dispute Resolution (IDR) schemes and risk management frameworks. In the committee's view, both have flaws that are contributing to poor consumer outcomes. To remedy this, the committee recommends that:

- the Australian Securities and Investments Commission (ASIC) be given greater power to monitor industry's compliance with IDR requirements; and

- formal independent reviews of each of the major banks' risk management frameworks be undertaken to improve the identification and prevention of misconduct.

1.16 Section 9 discusses the systemic problems that exist within Australia's wealth management framework and the measures being taken to address them. It recommends that these measures be supplemented by additional reporting on misconduct in the industry to improve outcomes for consumers and industry culture.