

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS (SECOND REPORT)

Westpac

Westpac49QW: Do you support a retrospective compensation scheme of last resort?

Answer: No, Westpac supports a prospective scheme of last resort for personal financial advice.

We are committed to ensuring that customers are protected and treated fairly across the financial services industry. Westpac notes that insolvency of members of FOS has resulted in a significant amount of money still owed to victims from awards issued. However, the banking industry should not be required to pay for non-bank related uncompensated losses.

In addition, we support a separate prospective scheme of last resort for Managed Investment Schemes (MIS) and other providers of credit and financial products (Australian Financial Services Licensees and Australian Credit Licensees). This will ensure that any contagion risk between the two schemes is mitigated, and that compensation required for insolvent members of FOS can be drawn from the appropriate pool.

We consider this model will improve customer confidence in financial services, enhance the existing consumer protection framework and ensure clients have access to remediation and compensation.

The design of these two last resort compensation schemes needs to be carefully considered to avoid any unintended consequences. For example, the objective should be to effectively cover fraudulent or materially poor behaviour, not be a substitute for lack of (or inadequate) Professional Indemnity insurance. We also expect that licensees will be required to be adequately capitalised, based on their relative risk.

Westpac supports the design principles contained in the ABA submission to the Ramsay Review of External Dispute Resolution Schemes, including:

- Limited liability scheme – capped compensation should be paid where Professional Indemnity (PI) insurance is insufficient to meet claims;
- Priority of claims – the scheme should be a 'last resort' arrangement;
- Industry-wide and mandatory as a condition of an AFS license; and
- Prospective.