



THE HON JOSH FRYDENBERG MP
TREASURER
DEPUTY LEADER OF THE LIBERAL PARTY

Mr Tim Wilson MP
Chair
Standing Committee on Economics
Parliament House
CANBERRA ACT 2600

Dear Chair

The former Treasurer previously wrote to the Standing Committee on Economics on 15 September 2016 to ask that it establish an inquiry into the four major banks. This inquiry has now lapsed.

Given the enhanced accountability and transparency that resulted from this Inquiry, I ask that the Committee continue its work on the same terms as those previously issued (Attachment A).

In addition, I ask that the Committee also inquire into progress made by relevant financial institutions in implementing the recommendations of the Royal Commission.

As you are aware, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry highlighted widespread misconduct across the financial sector. Commissioner Hayne made clear that primary responsibility for misconduct in the financial sector lies with the institutions concerned and their boards and senior management.

Of the 76 recommendations made by Commission Hayne, ten are directed to the financial services industry (see Attachment B). It is critical that financial institutions work swiftly to implement recommendations and, more broadly, to make the lasting changes required so that the community's trust in our financial institutions can be restored.

Specifically, I request that the Standing Committee on Economics inquire into matters relating to:

- how financial institutions deal with their customers, including indigenous customers, on specific issues and ensure they do not charge default interest on loans secured by agricultural land when there is a drought or natural disaster declaration

(recommendations 1.8 and 1.13), and to deal appropriately with distressed agricultural loans (recommendation 1.14);

- the approach taken by financial institutions to review and regularly assess culture, governance and remuneration arrangements, as required under recommendations 5.4 and 5.6, to ensure that these not only comply with the law but also meet community expectations;
- implementation of the recommendations of the Sedgwick Review as they concern staff remuneration (recommendation 5.5);
- remediation of customers in a fair and timely manner following conduct that has fallen short of the law or community expectations; and
- actions being taken by institutions to put customers at the heart of their business and to achieve the letter and spirit of the Royal Commission's recommendations.

I consider it appropriate that the Committee hear from the four major banks in conducting this inquiry and expect the Committee will also call other major relevant financial institutions along with leading financial services industry associations who will assist in providing the public with the appropriate transparency on how the industry is progressing the Royal Commission's recommendations, including in progressing industry codes.

To be clear, ASIC's and APRA's implementation of the recommendations will not be part of this inquiry as they are already required to appear before a number of other committees of the Parliament (including this Committee) and are subject to a range of other mechanisms that make them accountable to the Government and the public.

Given the public interest in this matter, I ask that the inquiry commence as soon as possible.

Yours sincerely



THE HON JOSH FRYDENBERG MP

1 / 8 / 2019

ATTACHMENT A



TREASURER

Chair
Standing Committee on Economics
Parliament House
Canberra ACT 2600

Dear Chair

As announced by the Prime Minister and myself on 4 August 2016, I am writing to request that the House of Representatives Standing Committee on Economics undertake – as a permanent part of the Committee’s business - an at least annual inquiry into: the performance and strength of Australia’s banking and financial system; how broader economic, financial, and regulatory developments are affecting that system; and how the major banks balance the needs of borrowers, savers, shareholders and the wider community.

The Australian economy depends on our banking and financial system. Banks operate under a social license and have responsibilities to the Australian public. It is therefore critical that the major banks are accountable to all Australians through their Parliamentary representatives.

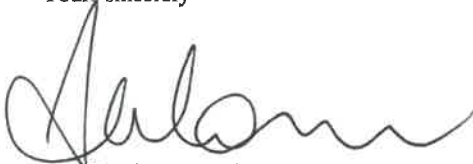
In undertaking its inquiry, I ask that the House Economics Committee hold at least annual public hearings at which the four major banks appear, with a particular focus on the banks’ perspectives on:

- domestic and international financial market developments as they relate to the Australian banking sector and how these are affecting Australia;
- developments in prudential regulation, including capital requirements, and how these are affecting the policies of Australian banks;
- the costs of funds, impacts on margins and the basis for bank pricing decisions; and
- how individual banks and the banking industry as a whole are responding to issues previously raised in Parliamentary and other inquiries, including through the Australian Bankers’ Association’s April 2016 six point plan to enhance consumer protections and in response to Government reforms and actions by regulators.

I expect that the Committee in undertaking its inquiry will also, as appropriate, engage with Australia’s key economic regulators and give due consideration to the Government’s Financial System Program and other relevant financial sector reforms and reviews.

Given public interest in this matter, I would ask that the inquiry commence as soon as possible once the membership of the House Economics Committee has been established. I have written previously to the Chief Executive Officers of the Australia and New Zealand Banking Group, the Commonwealth Bank of Australia, the National Australia Bank and Westpac to encourage them to participate fully in the inquiry.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Scott Morrison', written in a cursive style.

The Hon Scott Morrison MP

15/9/2016

ATTACHMENT B

Royal Commission recommendations directed to the financial services industry

Recommendations

Recommendation 1.8 – Amending the Banking Code

The ABA should amend the Banking Code to provide that:

- banks will work with customers:
 - who live in remote areas; or
 - who are not adept in using English, to identify a suitable way for those customers to access and undertake their banking;
- if a customer is having difficulty proving his or her identity, and tells the bank that he or she identifies as an Aboriginal or Torres Strait Islander person, the bank will follow AUSTRAC's guidance about the identification and verification of persons of Aboriginal or Torres Strait Islander heritage;
- without prior express agreement with the customer, banks will not allow informal overdrafts on basic accounts; and
- banks will not charge dishonour fees on basic accounts.

Recommendation 1.10 – Definition of 'small business'

The ABA should amend the definition of 'small business' in the Banking Code so that the Code applies to any business or group employing fewer than 100 full-time equivalent employees, where the loan applied for is less than \$5 million.

Recommendation 1.13 – Charging default interest

The ABA should amend the Banking Code to provide that, while a declaration remains in force, banks will not charge default interest on loans secured by agricultural land in an area declared to be affected by drought or other natural disaster.

Recommendation 1.14 – Distressed agricultural loans

When dealing with distressed agricultural loans, banks should:

- ensure that those loans are managed by experienced agricultural bankers;
- offer farm debt mediation as soon as a loan is classified as distressed;
- manage every distressed loan on the footing that working out will be the best outcome for bank and borrower, and enforcement the worst;
- recognise that appointment of receivers or any other form of external administrator is a remedy of last resort; and
- cease charging default interest when there is no realistic prospect of recovering the amount charged.

Recommendation 1.16 – 2019 Banking Code

In respect of the Banking Code that ASIC approved in 2018, the ABA and ASIC should take all necessary steps to have the provisions that govern the terms of the contract made or to be made between the bank and the customer or guarantor designated as 'enforceable code provisions'.

Recommendation 4.9 – Enforceable code provisions

Recommendations

As referred to in Recommendation 1.15, the law should be amended to provide for enforceable provisions of industry codes and for the establishment and imposition of mandatory industry codes.

In respect of the Life Insurance Code of Practice, the Insurance in Superannuation Voluntary Code and the General Insurance Code of Practice, the Financial Services Council, the Insurance Council of Australia and ASIC should take all necessary steps, by 30 June 2021, to have the provisions of those codes that govern the terms of the contract made or to be made between the insurer and the policyholder designated as ‘enforceable code provisions’.

Recommendation 4.10 – Extension of the sanctions power

The Financial Services Council and the Insurance Council of Australia should amend section 13.10 of the Life Insurance Code of Practice and section 13.11 of the General Insurance Code of Practice to empower (as the case requires) the Life Code Compliance Committee or the Code Governance Committee to impose sanctions on a subscriber that has breached the applicable Code.

Recommendation 5.4 – Remuneration of front line staff

All financial services entities should review at least once each year the design and implementation of their remuneration systems for front line staff to ensure that the design and implementation of those systems focus on not only on what staff do, but also how they do it.

Recommendation 5.5 – The Sedgwick Review

Banks should implement fully the recommendations of the Sedgwick Review.

Recommendation 5.6 – Changing culture and governance

All financial services entities should, as often as reasonably possible, take proper steps to:

- assess the entity’s culture and its governance;
 - identify any problems with that culture and governance;
 - deal with those problems; and
 - determine whether the changes it has made have been effective.
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