

## **Productivity Commission releases report on competition in the financial system**

On 29 June the Productivity Commission released their report on competition in the Australian financial system, finding the market power of larger financial institutions has been detrimental for consumers.

The report found that the Australian banking sector is dominated by a handful of players. The four major insurers hold an 80% share of the market for lenders mortgage insurance and travel insurance, and the four major banks hold 75% of the market for loans, personal deposits and credit cards.

While the major banks' dominance helped them survive the GFC, their market power has induced unaware customers to maintain loyalty to unsuitable products. The Productivity Commission found that for this issue to persist for over a decade, information channels must be failing.

The report found that mortgage brokers have become a part of the banking establishment. With fees and trail commissions not linked to the customer's best interest, conflicts of interest created by ownership are obvious but unaddressed. The report recommended banning trail commissions and restricting clawback of commissions from brokers. The Productivity Commission recommended that all brokers should have a clear, legally-backed best interest obligation to their clients.

The Productivity Commission recommended that banks should appoint a Principal Integrity Officer (**PIO**) who would be required by law to report to the board on the alignment of payments made by the institution with the new customer best interest duty. A failure to respond to these reports would oblige the PIO to independently report the matter to ASIC.

In terms of general insurance, the report found that although there was a plethora of brands in the industry, there are few actual insurers. The industry was prone to poor quality information provided to customers and sharp practices for add-on insurance products. The Productivity Commission recommended that a Treasury working group be established to explore the introduction of a deferred sales model to all sales of add-on insurance.

In regard to the New Payments Platform, the report found the platform requires a formal access regime and that now is the time to introduce regulatory arrangements to support substantial competition in the services Australians use daily.

The report suggested that APRA's prudential matters be redesigned to lessen market power and address the imbalance in lending between businesses and housing.

Finally, the report found that the ACCC should act as an advocate for competition in the financial system to ensure the interests of consumers and costs imposed on them are being considered.

Prime Minister Malcolm Turnbull addressed the report, stating that more was to be done to clean up the banking industry to ensure consumers are put first. Mr. Turnbull said that the government is "determined to hold the wrongdoers to account" and will change the law to ensure banks do the right thing in the future.

[Read the full report here](#)