Friday 9 September 2016

Mr Stephen Sedgewick AO
By email: submissions@retainbankingremunerationreview.com.au

Dear Mr Sedgewick,

RE: Independent review of product sales commissions and product based payments

CHOICE welcomes commitment from the Australian Bankers' Association to review the effect of sales commissions and product based payments on consumer outcomes. The review is an important step in increasing confidence in the banking industry.

The importance of releasing information about commissions and payments

Product sales commissions and product based payments are hidden. Right now, we don't know how these payments influence consumer outcomes because we don't know what the payments are.

CHOICE asks that, as much as possible, the review releases information about commissions and product based payments. Advocates and decision makers outside of the banking sector cannot properly assess the issue without these facts.

- We encourage the review to release information about specific payments made to banking staff and relevant third-parties. If this isn't possible, we ask that aggregate data is released. In order to properly assess the impact of commissions and payments on consumer outcomes, we need to know about:
- Payments provided to front-line retail staff and their managers for the sale of any products such as new credit cards, new loans, consumer credit insurance or home loans.
- Payments provided to front-line retail staff and their managers for meeting sales or any other volume-based targets.
- Any non-payments based rewards provided to front-line retail staff and their managers for selling products or meeting targets such as holidays, attendance at training in desirable locations, or other favourable treatment at work.

- The total amount of possible payments that could be made to front-line retail staff and their managers as a percentage of their fixed wage.
- Referral fees paid to any non-bank staff.
- Commissions or other payments made for the sale of bank products by third-parties, including brokers. This should also include any training or volume-based requirements that the third-party needs to meet to receive payments or qualify for a scheme.

Scope of the review

CHOICE is disappointed that the review has been limited to non-advice payments. Conflicts of interest still exist within and distort financial advice. The Inquiry should consider recommending an extension of the ban on conflicted remuneration for financial advisers to asset-based fees. Asset-based fees are ongoing fees calculated as a percentage of the total funds under advice. They have many of the same market distorting features created by commissions, which have already been recognised as inappropriate for advisers.

Asset-based fees encourage advisers to direct clients into certain types of investments. They are significantly less transparent than fixed fees, and in cases where an adviser accepts asset-based fees from long-term inactive clients, they allow fee-for-no-service business models to thrive (where a client continues to pay a fee long after they have received advice). Fixed fees for advice, either hourly rates or lump sums, remove these failings.[1]

For further information, please contact CHOICE on eturner@choice.com.au.

Yours sincerely,

Erin Turner,
Head of Campaigns & Policy

[1] For further information, see CHOICE (2014), *Submission to Senate Economics References Committee: Scrutiny of Financial Advice Inquiry*.

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