SUBMISSION ON RETAIL BANKING REMUNERATION (COMMISSIONS/PAYMENTS) REVIEW

I am offering this brief submission as a private citizen. I do not represent any organisation. I am a chartered accountant and former financial adviser with over 30 years' experience. I commend the ABA for commissioning this review. I am pleased that its conclusions will be independent of the banking industry.

I note at the outset that almost all of the bad behaviour observed over many decades in the financial services industry (including in the banks) has been caused by conflicted remuneration arrangements. There can be little dispute about this. These arrangements are often structured with good intentions, however, they are almost always designed to reward, encourage or mandate the sale of financial products.

The overarching assumption in the industry (indeed, it may be even implied in this Review's terms of reference) is that remuneration arrangements which reward, encourage or mandate product sales must be retained to some extent or another. Indeed, for many in the industry, retention of these arrangements is a "line in the sand" that must never be crossed. Therefore, any suggestion that all (or any) product-based remuneration arrangements should be removed is strenuously resisted.

Given this "not negotiable" assumption, the industry has (mostly unsuccessfully) sought to control poor outcomes via a range of complex compliance arrangements designed, it is said, to "reform culture" and to moderate improper behaviour. It does this by seeking to balance "stakeholders' interests". This concept is fundamentally at odds with achieving a trusted relationship with customers.

For example, certain remuneration arrangements have been designed to moderate behaviour by including a range of criteria by which the performance of staff is measured. Invariably, one of those criteria is product sales. The reality is that any remuneration arrangement which includes a criterion which rewards, encourages or mandates the sale of products will lead to poor behaviour. This is because such a criterion creates an immediate conflict with the interests of customers whose objective is to receive trustworthy advice in their best interests, not **necessarily** to buy a product. Indeed, it is often not in a customer's best interests to buy a product at all.

Eventually, the industry must decide whether or not it wishes to create a trusted relationship with its customers. In deciding this, the industry must recognise that trust is an absolute. There are no degrees of trust. Trust cannot be partially achieved and it must never be compromised if it is to continue.

Therefore, if the industry wishes to create a trusted relationship with its customers, it must remove all, not just some, product-based remuneration arrangements.

Of course, I am well aware that the adoption of such a comprehensive approach to remuneration practices would be unthinkable for most participants in the industry, so psychologically and financially "locked-in" are they to the dominant culture whose methodology is to balance (or compromise) "stakeholders' interests". However, if the industry’s genuine objective is to achieve the trust that has eluded it for decades, then it must accept that such balancing acts will never succeed.

If a compromise is chosen (the most likely and easier choice), the industry’s product sales culture will continue to dominate, although the industry will be able to demonstrate that positive action was taken in the short run. Then it will only be a matter of time before more bad practices are revealed, followed by calls for new government inquiries and legislation; whereas adoption of a comprehensive approach would soon lead to a culture which is unambiguously aligned with customers’ best interests, the acquisition of more customers, more satisfied and motivated bank staff, a far less intrusive regulatory system, lower commercial risks, more product sales, greater profits and higher share prices.

I would be more than happy to offer further input should that be required.

Robert M.C. Brown AM, BEc (Syd), Chartered Accountant
9th September 2016