

The Government established a Financial System Inquiry ('the Inquiry') in late 2013, delivering on our election commitment to hold a root and branch examination of Australia's financial system.

The Inquiry, chaired by Mr David Murray AO, was asked to make recommendations that would position the financial system to best meet Australia's evolving needs and support economic growth. The Inquiry found that Australia has a well performing financial system. The Government's response will ensure Australia's financial system is the best in the world.

Following extensive domestic and international consultations, the Inquiry delivered its final report to the Government on 28 November 2014. When releasing this report, the Government announced a period of consultation to help inform our response to the Inquiry's final recommendations. More than 180 written submissions were received, complemented by extensive stakeholder engagement through meetings and roundtables.

The Government's Financial System Program

Our response to the Inquiry builds on existing measures. In doing so, we are setting out an agenda for improving our financial system.

This agenda aims to:

- strengthen the resilience of the financial system;
- improve the efficiency of the superannuation system;
- stimulate innovation in the financial system;
- support consumers of financial products being treated fairly; and
- strengthen regulator capabilities and accountability.

We all have a vital stake in the operation of our financial system.

The financial system touches the life of every individual, family and business. We rely on the financial system for the multiplicity of transactions undertaken in any week. The financial system helps us manage our household budgets, holds our savings, provides the credit we need and, through insurance, helps us manage risks we face. Our largest lifetime undertakings - including purchasing a home, providing for our retirement

or starting a business venture - are all supported by the financial system.

A competitive, innovative and efficient financial system supports the operation of the whole economy. In recent years, we have seen how important the resilience of our banks is during global shocks.

The financial system, like so many other parts of our lives, is being transformed by technological change, innovation and globalisation. If Australia fails to adapt to these developments, to take the opportunities they present while managing evolving risks we will fall behind the rest of the world.

If consumers are overcharged or treated unfairly, the losses they incur adversely affect the whole community. And as the population ages, the cost of inefficiencies in our superannuation policy framework will escalate.

Our financial system program is made up of five distinct strategic priorities that deal with each of these challenges.

- The resilience measures aim to reduce the impact of potential future financial crises by ensuring we are better able to weather them and lessen their cost to taxpayers and the economy.



- The superannuation and retirement incomes measures aim to improve the efficiency and operation of the superannuation system and in doing so boost retirement incomes.
- The innovation measures will unlock new sources of finance for the wider economy and support competition.
- The consumer outcomes measures are designed to give consumers confidence to participate in the financial system and the confidence that they are being treated fairly.
- The regulatory system measures aim to make regulators more accountable for their performance, more capable and more effective.



Resilience

Australia's financial system is strong, stable and well regulated. However, our reliance on foreign capital leaves Australia vulnerable to financial shocks. As a result, our regulatory framework needs to be stronger than those of comparable economies.

APRA has already announced measures to improve the resilience of the banking system and will take further action on regulatory capital requirements, taking account of international developments.

We will strengthen crisis management powers for Australia's financial regulators to ensure they have the tools they need in the unlikely event that a financial institution or market fails. APRA will implement loss absorbency capacity and leverage requirements in line with emerging international practice.



Superannuation and Retirement Incomes

Superannuation is the largest financial asset many Australians have after the family home. It is critical that the superannuation system is competitive, efficient and transparent and has the highest standards of governance in order to provide Australians with the confidence to invest in the system and plan for their retirement.

We will enshrine the objective of the superannuation system in legislation.

We will immediately task the Productivity Commission to develop efficiency metrics for the superannuation system and develop alternative models for allocating default contributions.

We have already committed to improve governance in superannuation by requiring a minimum one-third of independent directors for superannuation trustee boards, enhancing transparency of information and improving competition in superannuation.

We will also improve retirement income products by removing impediments to their development.



Innovation

Innovation is transforming the financial system, and this innovation will boost economic productivity. Government policies should enable innovation as it facilitates competition and reduces costs for consumers.

We are already working to facilitate crowd-sourced equity funding and the issuance of 'simple' corporate bonds.

We will work to ensure that financial system regulations are technology neutral, and foster the development of impact investment products that support social outcomes as well as generate financial returns.

We will phase in a legislated ban on excessive customer surcharges on card payments and the ACCC will enforce card surcharging rules to ensure consumers are treated fairly. The Payments System Board will work to improve interchange fees.



Consumer Outcomes

While consumers are responsible for the consequences of their financial decisions, they should be treated fairly. However, recent history provides a number of examples where commercial interests have overridden consumer interests, to the detriment of consumers.

We will do more to lift the standards of financial advice, including by introducing minimum professional, ethical and education standards.

We will consult widely on measures to improve the accountability of issuers and distributors of financial products. We will also consult on a new ASIC product intervention power that would be used to modify products, or if necessary ban the sale of harmful products. We will ensure remuneration structures in life insurance, stockbroking and mortgage broking do not adversely affect the quality of advice consumers receive.



Regulatory System

The Inquiry found that financial regulator accountability and capabilities could be strengthened.

We will revise the Statements of Expectations and require financial regulators to report on their capabilities and how they balance competition with the other elements of their mandates. We will include competition in ASIC's mandate.

We will reconstitute the Financial Sector Advisory Council to include a role in monitoring the performance of the financial regulators.

The Government is already conducting a capability review of ASIC and consulting on an industry funding model for ASIC. We will consider enhancing staffing flexibility and a three-year funding model for ASIC and APRA once the capability review is complete.