



ASIC

Australian Securities & Investments Commission

Productivity Commission Inquiry into competition in the Australian financial system: Hearings on draft report

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Introduction

Thank you for the opportunity to appear before the Productivity Commission today. We welcome the Commission's draft report and the attention it has drawn to the competition in Australia's financial system.

A key priority for ASIC is to identify where the failure of competition to operate effectively results in poor conduct and consumer harm.

The draft report includes a number of findings and recommendations that are relevant to ASIC's work and mandate. We will respond to each of those recommendations in our written submission.

I would like to focus my opening remarks on three issues:

- improving consumer outcomes;
- data and transparency; and
- regulatory settings.

Consumer outcomes

First, improving consumer outcomes.

As we noted in our first submission to the Commission, poor consumer outcomes can be a sign that competition is not working as effectively as it could be.

In our experience, in many cases the practices involved do not breach competition laws and may not breach conduct laws. These types of failures often require a tailored regulatory response.

ASIC has worked to address some of these competition problems in financial markets, with effective results.

A good example is our work on add-on insurance and flex-commissions in car yards. We have obtained refunds of over \$120 million for consumers in a market characterised by excessive supply-side and ‘reverse’ competition. That is, vigorous competition by lenders and insurers for access to car dealership intermediaries, rather than for consumers.

We welcome the Commission’s support for ASIC to proceed with our proposal to mandate a deferred sales model for add-on insurance through car dealerships, and for the Government to consider extending this to other types of add-on insurance products.

Data and transparency

Next, I would like to discuss data and transparency.

We welcome the Commission’s strong focus on data and harnessing new technologies to facilitate consumer understanding.

ASIC, like the Productivity Commission, supports the proposed open banking regime. With appropriate regulatory settings, increasing consumers’ access to their own data has the potential to empower decision making and stimulate competition and innovation within the financial services sector.

The Commission has made a number of other specific recommendations on data.

We agree with the Commission that a significant component of consumer choice is providing consumers with the right sort of information, at the right time.

While there has been too much focus on of the provision of individual contractual disclosure, on ‘terms and conditions’, there has been *too little* focus on providing consumers with meaningful information on performance – that is, how the product the consumer is considering and the entity providing it performs in practice and how what the consumer is being offered compares to what is being offered in the market more generally.

In appropriate cases, we are working to make that ‘performance’ type information available. For example, to improve public trust and consumer understanding in life insurance, there was a clear need for better quality, more transparent and more consistent data on claims. ASIC has been working with APRA on establishing a new public

reporting regime for claims data and outcomes in the life insurance industry. This should ultimately allow for meaningful comparisons of insurer performance with sufficient context to effectively inform consumers.

However, we also know that the complexity of financial products and services and consumer decision making means simply providing more information may not necessarily improve competition and consumer outcomes. It is important to ensure that any additional information and data provided to consumers is actually beneficial through, for example, consumer testing.

Regulatory settings

Finally, I would like to discuss regulatory settings to promote competition.

Competition in financial markets is dynamic and evolving. Ensuring effective competition in the Australian financial system is an ongoing process.

Each regulator has a role to play.

As a starting point, each regulator needs the right mandate and regulatory toolkit to promote effective competition.

We support the Productivity Commission's recognition of the importance of ASIC having a broad, proactive competition mandate to undertake our role effectively. An appropriately broad mandate would allow us to:

- factor and appropriately balance competition into our regulatory decision-making; and
- address market failure as a driver of misconduct or poor consumer outcomes.

We also support regulators working together to consider competition issues in the financial system, and to learn from each other's expertise and perspectives, whatever mechanism is ultimately chosen to achieve this.

Conclusion

We look forward to continuing our work with the Productivity Commission in this Inquiry. We are happy to take any questions.