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Productivity Commission
Level 12, 530 Collins Street
Melbourne VIC 3000

**Submission to the Productivity Commission for the Inquiry into Competition in the Australian Financial System**

Dear Commissioner,

AMP appreciates the opportunity to provide a submission in response to the Productivity Commission's Consultation Paper for this inquiry.

We note that the terms of reference for this inquiry are broad. We believe that while there is scope to improve competition in the Australian financial system, the primary focus of any recommendations for reform should be on improving consumer outcomes. Competition encourages innovation, broadens consumer choice and drives better outcomes for consumers.

The purpose of this submission is to focus on two key and relevant areas of importance to AMP:

- Competition in banking
- Benefits of vertical integration

## 1. Competition in banking

AMP believes that there are a number of areas of banking policy that should be amended to improve consumer outcomes by increasing competition. Fair and equal competition amongst all of the banks, including both small and major banks, will improve the strength of the Australian banking system and increase consumer choice.

AMP Bank is an Australian retail bank offering residential mortgages, deposits, transactional banking and SMSF products for around 100,000 customers. AMP Bank distributes through brokers, AMP advisers and direct to retail customers via phone and internet banking. AMP Bank's role, as the banking arm of a wealth manager, is to leverage and grow the group's customer base and support customer goals through providing banking solutions to both advised and non-advised customers.

We support the Regional Banks' submission to the Productivity Commission for this inquiry dated 22 September 2017 which included the views of AMP Bank. In addition, we would like to emphasise the following in relation to competition in banking:

**a) Broaden APRA's charter to include competition in addition to prudential issues**

We note the broadening of APRA's powers from prudential supervision to conduct regulation, with the Government's recently released draft legislation to introduce the Banking Executive Accountability Regime (BEAR). We support the introduction of a BEAR for executives who have accountability for the prudential issues of an Authorised Deposit Taking Institution (ADI).

We note and are supportive of the Government's intentions to further broaden APRA's powers with respect to non-bank lenders or shadow banks. We believe that these new proposed powers as outlined in the Government's draft legislation for non-ADI lender rules, will strengthen the Australian financial system and create a more level playing field for all participants.

We are also supportive of additional broadening of APRA's charter as recently proposed by Senator Nick Xenophon for new legislation to be introduced in 2018 following this Productivity Commission Inquiry, to empower APRA to ensure consideration of competition issues as well as prudential issues in is decision making[1]. With a focus on competition in its decision making, we believe that APRA will be need to include consideration of the potential impacts on smaller banks in its decisions.

**b) Importance of mortgage brokers for small banks, with appropriate disclosure of ownership structures**

We are supportive of the industry led response to ASIC's Review of Mortgage Broker Remuneration released on 16 March 2017 and believe that mortgage brokers are a key element required to allow smaller banks including AMP Bank to provide services to consumers and compete with the major banks.

In keeping with a focus of improved consumer outcomes and a level playing field for all participants, we agree with enhanced disclosure regarding ownership structures so that mortgage aggregators and brokers who are owned by major banks are required to publicly report on the proportion of loans they direct to their owners.

**c) Modification of the APRA prescribed dual system of estimating risk-weighted assets**

We support the Regional Banks' submission regarding the implicit subsidy to the major banks due to the dual system of estimating risk-weighted assets. The major banks enjoy an advantage which enables them to be more price competitive and profitable, whilst the underlying mortgage assets are not different. We are lending against the same asset class but by virtue of our size there are impediments to getting the same capital treatment as the big banks on the same assets.

**d) Modification of the APRA 10% annual growth limit on mortgage investment lending**

AMP is strongly supportive of the Regional Banks' recommendation to design macroprudential rules that better balance the intention behind the restrictions and competition issues.

In particular, we consider that the 10% limit on investor property lending has unintended competitive effects and unfairly restricts the choice of customers. AMP represents only 0.76% of the banking market share and the 10% limit impact on our ability to service property investors versus those of the majors is dramatic. Effectively AMP has had to stop lending to new customers who

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[1] Eyers, J., Australian Financial Review, *Xenophon calls for APRA changes to protect small banks*, 19 September 2017

want to invest in property. This has damaged our reputation and brand with the broking community and potential customers.

We understand that the Government would like to see more competition in the banking industry. Unfortunately we are restricted from competing with the majors due to the impacts of the macroprudential limits.

More importantly, existing and potential property investors cannot be serviced by AMP. If a customer has an investment loan with one of the majors they are effectively locked in to switching to one of the other majors as they have more scope to service the loan and remain within the 10% limit. This is contrary to recent comments made by the Treasurer about switching to a smaller bank if customers are unhappy with the majors – they can't if they have an investment property loan.

Further, while we support the underlying policy intention of trying to reign in the property markets in Sydney and Melbourne, it is widely acknowledged that this is not reflected in many other states, particularly in rural and regional areas. AMP cannot lend to investors looking to invest in our regional towns and cities which may receive much needed economic support if investors did enter their property markets and provide more rental stock.

For these reasons, AMP considers that a blanket 10% limit on investment property lending growth is not appropriate for smaller and regional banks. We suggest that consideration be given to either increasing the limit for smaller banks or removing it all together to promote competition and consumer choice.

While we understand that no other jurisdiction has imposed a 'two speed' macroprudential limits (i.e. majors vs minors), we submit that this should not prevent consideration of doing so in Australia, to take into account, potentially a unique Australian property market as well as the direct impacts on competition and therefore consumer choice.

## 2. Benefits of vertical integration

AMP supports vertically integrated structures in financial services institutions and believes that the market should be allowed to operate without additional regulation.

AMP considers that vertically integrated institutions offer the Australian community value because of the following considerations:

- Vertically integrated institutions have the financial capacity to invest in the development of new and high quality solutions for consumers, which ensure strong competition and innovation in the market.
- Vertically integrated institutions are typically large and more conservative, and face considerable brand risk associated with breaching their compliance requirements.
- Vertically integrated institutions also have a greater capacity to invest compared with smaller companies (both in terms of innovation and compliance) whose capacity for investment and scaling up may be limited. One example of this is in the arena of cyber security, where large institutions are able to leverage and exploit supplier relationships, leading edge subject matter expertise, and comprehensive information technology platforms to ensure consumer interests are protected.
- A vertically integrated model allows a more consistent customer-centric approach to be applied to product management and customer treatment. The provider has greater control across the value chain from definition of the target market, through product development, distribution strategy, sales process and service delivery.

- A vertically integrated model also assists with industry compliance and monitoring, as ASIC is able to liaise with the large licensee/institution rather than try to engage thousands of individual firms.
- Vertically integrated large institutions are also required to have comprehensive dispute resolution processes in place which are regularly audited by ASIC.
- In relation to financial advice, vertically integrated institutions:
  - With the Best Interests Duty introduced under FOFA, are working to ensure optimal consumer outcomes in a vertically integrated environment. For example, AMP has between six and eight different insurance companies listed on each of the Approved Products Lists (APLs) for our different Advice Licensees. We believe that this flexibility in product choices enables our financial advisers to offer the right insurance policy for the right client, while acting in the client's best interests. And, while AMP may be considered as a vertically integrated institution, the majority of the insurance that AMP's financial advisers choose to recommend to their clients flows to non-AMP products.
  - With significant capital strength have the resources and brand strength to provide their advisers with high quality professional development, education and training.
  - Very importantly, vertically integrated firms are also able to stand behind the advice their advisers give to customers, and facilitate remediation in the event that customers don't receive advice that is in their best interests. There are no unpaid FOS determinations relating to a vertically integrated firm.
  - May enable greater levels of customer access to advice compared with reliance on Independent Financial Advisers (IFA's) alone. The costs to financial advisers and Advice Licensees of providing quality financial advice are significant. A disaggregated industry (whether that disaggregation is achieved through separation of ownership or separation of operations) will be more expensive – especially for advice, which may ultimately reduce the availability of advice.
- There is also no evidence that 'independent' financial advice is of any greater quality than advice from other business models; indeed advice from 'independents' has proved to be the most damaging to consumers and was the driver of the original Ripoll Inquiry. Independents also represent the vast majority of cases where customers have unpaid FOS determinations.

**International comparisons**
It is important to also note that in the United Kingdom (UK), policy changes considered to dismantle vertical integration were abandoned after analysis and discourse concluded that vertical integration offered material benefits to the nation.

In August 2014 as part of AMP's response to the Financial System Inquiry (FSI) Interim Report, we commissioned Towers Watson to review industry structures elsewhere in the world (including in the UK to examine the outcomes of the UK's 2008 Retail Distribution Review). A copy of the Towers Watson report provided to AMP on vertical integration in the UK is included as an Appendix to this submission.

Towers Watson found there was no evidence to suggest that overseas models operate differently (or more effectively) in providing advice through large institutions. The US, Canada, the Netherlands, France, Italy, Germany and the UK did not require independence or prohibit vertically integrated financial services groups. To the extent that any restrictions or limitations applied, they were designed to address prudential issues such as capital adequacy and risk management. Towers Watson noted the UK had recently moved away from a proposal for structural separation.

It is notable the UK's regulator, the Financial Services Authority, raised the following concerns about proposals to change vertically integrated structures:
- The potential impact of the proposal on consumer access to advice, especially among less affluent consumers, who were more likely to use restricted advice models and who might lose access if this form of distribution was removed.

- Fears that existing customers of firms would suffer if the firms were required to change their model or withdraw their advice services.
- Realignment of the industry needed to implement the structural separation would result in considerable disruption including the loss of advice capacity from the non-independent sector
- Lack of industry consensus and perceptions of self-interest on the part of some firms in seeking to exclude others from the advice market by influencing the future direction of regulation.

In light of the evidence from both Australia and around the world, AMP recommends the existing regulatory model that enables vertical integration continue.

Should you have any queries, or wish to discuss any elements of this submission, please do not hesitate to contact me

Yours sincerely

Alastair Kinloch

**Attached separately:**
**APPENDIX to the AMP submission to the Productivity Commission – 20 October 2017**

Extract from AMP's submission in response to the Financial System Inquiry (FSI) Interim Report – Towers Watson report on *Vertical integration in the UK life and retail investments market*, 26 August 2014.