Sedgwick tells banks: Act now or pay the price

James Frost and Alice Uribe

Key points

Big four banks start falling into line with sales commissions reforms.

Industry Super Australia says bank reforms don't go far enough.

Stephen Sedgwick has warned the banks to move quickly on scrapping outdated payment incentives linked to sales, saying that public trust in banks has been lost since the GFC and fintech rivals are looming.

Mr Sedgwick, the former public servant commissioned by the Australian Banking Association to review the industry's approach to remuneration, said there was a sense of urgency about the reforms following their release on Wednesday.

He said those who delayed making the reforms would be worse off and banks needed not just to do the right thing but be seen doing the right thing.

"Frankly guys, it's in your best interests to do the right thing by customers and shareholders, and that means adopting these recommendations regardless of what you perceive others might do," Mr Sedgwick said.

"All industries face the risk of disruption, but when there is already a trust deficit the public will have far less tolerance of mistakes for established players than they will have for start-ups. The benefit from moving quickly is clear."

The heart of the review is a recommendation for banks to scrap performance incentives based on meeting sales targets. It recommends banks immediately cap the contribution of sales targets to 50 per cent of any incentive, falling to 33 per cent by 2020.

It also recommends banning any form of accelerated commission structure and a host of payments for mortgage brokers in anticipation of a fee for service model emerging.

The banks were quick to lend support to the review. NAB and Commonwealth Bank had previously committed to supporting the recommendations and were joined by ANZ and Westpac.

Commonwealth Bank CEO Ian Narev reiterated the bank's support for the reforms and committed to a time line of introducing all the measures for frontline banking staff within 14 months.

"We will implement many of the recommendations by July 1, 2017, and will have all changes in place by the following financial year," he said.

NAB's chief customer officer, Andrew Hagger, also doubled down on the bank's original commitment by promising to make the changes before Mr Sedgwick's deadline.

"Now that we have the final recommendations our focus is to implement them well ahead of the 2020 deadline," he said.

ANZ group executive Fred Ohlsson said the bank had already introduced new initiatives for some staff members, where measures such as meeting sales targets accounted for only 30 per cent of the incentive scorecard.

Westpac consumer bank chief executive George Frazis said the bank welcomed the review and pointed out that it had already reduced sales targets to account for 50 per cent of any performance incentive for many staff members.

Some quarters were more critical of the review, however, with concerns emerging that removing the focus on sales targets could harm the bottom line of the banks at a time when revenue growth is sluggish.

Australian Bankers Association chairwoman Anna Bligh said sales targets would continue to exist and at the end of the day banks are still businesses and not charities.

"He [Mr Sedgwick] is not saying that banks are about to abolish sales targets, but it cannot be an individual sales target and you can't link someone's pay to it," Ms Bligh said.

"Customers want and need their banks to be strong commercial organisations. This is not a shift away from sales or behaving commercially. It is a shift away from how remuneration is structured so that inappropriate behaviour and mis-selling is not an inadvertent outcome of a reward system."

Industry Super Australia (ISA), the umbrella group that represents 15 industry super funds, said the reforms didn't go far enough.

ISA chief executive David Whiteley said in a statement that the review failed to specifically address the cross-selling of bank superannuation funds, which have traditionally underperformed those run by the industry funds. "Australians shouldn't walk out of a bank branch worse off than when they walked in," Mr Whitely said.

"A comprehensive ban on sales incentives for staff and a 'better-off test' is now required to protect the public from the cross-selling of compulsory super by banks."

Mr Sedgwick said those who criticised the scope of the recommendations may not fully appreciate the cultural changes the banks face in implementing reforms that require a wholesale restructuring of remuneration.

"It's perfectly appropriate that the banks be held to account for what they do. I believe they are committing to quite a significant agenda of reform with their eyes open and they should be judged on their merits," he said.

Peter Cooper says he fully supports proposed reforms of the home loan market. PHOTO: TAMMY LAW

Mortgage brokers tarred by same brush

Case study

Matthew Cranston

Peter Cooper is one mortgage broker who has no time for any perceived benefits from banks trying to push loans on home buyers.

He is backing Stephen Sedgwick's proposed reforms of the nation's $1.5 trillion home loan market including ceasing non-transparent soft dollar payments, such as travel and hospitality incentives paid to brokers to encourage lending.

"I am totally in favour of no soft dollar payments direct to brokers," Mr Cooper of Cooper Financial Connections said.

"There have been conference trips offered to top-performing brokers who have achieved certain benchmarks based on a criteria, but in my capacity as a mortgage broker I have always seen it as a potential conflict of interest that I do not need to be exposed to in completing my role."

His boutique broking business in Brisbane has built a reputation of not accepting any such inducements and as such he said he had not been offered anything as colourful as trips to the Bahamas.

He supports Sedgwick, a former Australian Public Service Commissioner who has conducted a review of remuneration for the bankers association and made wide-ranging recommendations about abolishing some forms of remuneration for brokers.

Mortgage brokers and bankers have already broadly agreed on key ASIC recommendations that lenders cease paying volume-based incentives that are additional to upfront and trail commissions.

"I am comfortable with the approach and recommendations particularly around requesting the chief executives and executive teams to be responsible and accountable for managing the corporate values of the company which have been ignored for some time, even by board members.

"The values gather dust in annual reports and are never used to manage staff behaviours, which I believe are required to execute what they are proposing and has to be monitored down the management line."

He thinks brokers need an independent review or enterprise bargaining agreement so they can be remunerated better based on the workload they now perform on behalf of the banks. This will help them reduce costs at a time when some in the broking industry suggest banks are wielding pressure on them.

Mr Cooper said this is evidenced by the workload and additional costs incurred by brokers since the financial crisis, having regard to the fact their income was lowered during that time and has not returned to its original levels."

"Brokers today carry out tasks that were once performed by the banks staff," he said.

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Brokers slam 'radical' home loan reforms

abolition of soft dollar commissions, such as luxury holidays for performing mortgage brokers.

Brokers and regulators are expected to seek more detail on Mr Sedgwick's proposal that banks adopt a remuneration structure "broadly equivalent to that proposed for the performance management of equivalent retail bank staff".

Mr Sedgwick claims the recommendation is "consistent with ASIC's proposals in their report and indicate a feasible path forward".

But brokers describe the proposal as a "radical change" from the ASIC recommendations and fear it could, if implemented, result the replacement of commission payments with a flat fee for making recommendations.

Mr Russell said: "While the report makes a brief mention for consideration of a fee for service, to be set and paid for by the banks, we strongly support the continuation of the current upfront and trail structure echoed by ASIC and subject to the removal of volume, campaign-based and soft-dollar incentives."

Stephen Sedgwick: controversial plan.

ASIC senior executive leader Michael Saadat, who led the team that researched and wrote the original report, said: "I welcome any initiative to reduce risk and poor consumer outcomes."