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Resilience

DAVID G MAYES F Fin

This paper appraises the Financial System Inquiry's proposals for making the banking system more resilient by increasing capital buffers to reduce the chance of bank failures and by improving the resolvability of banks with minimum real impact should they fail. It concludes that the main problems lie in the area of resolvability, where Australia has taken limited steps compared with the rest of the OECD. Many questions need to be answered before satisfactory arrangements in line with the Financial Stability Board's recommendations can be introduced. On capital buffers, it is not clear why Australia should want to exceed the recommended levels or why the Basel Committee's proposed leverage ratio should be omitted. Surprisingly, the inquiry does not discuss whether the balance between Australia's big four banks and other sources of finance is best for resilience.

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Superannuation and retirement incomes

RAFAL CHOMIK and JOHN PIGGOTT

In this paper we consider four aspects of the recommendations in Chapter 2 of the Financial System Inquiry Final Report and identify where they have fallen short or been limited by the inquiry's remit. First, while the recommended formal clarification of objectives for superannuation is welcomed, a broader understanding of policy interactions is required. Second, ineffective price competition may be addressed through a tender system of investment, but we agree that current reforms need time to settle. Third, the inquiry makes an important contribution by highlighting that the payout phase requires government intervention, but supply-side issues are not adequately addressed. Fourth, while 'independence' of boards appears attractive, the related evidence is scant and some governance questions remain unanswered. Overall, we conclude that a more complete perspective on retirement incomes is needed to develop a comprehensive retirement income policy.

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Innovation and the Financial System Inquiry

DEBORAH RALSTON SF Fin

The Financial System Inquiry rightly has a strong focus on innovation in its recommendations on how the financial system can better meet the needs of growth in the Australian economy. This paper appraises the inquiry's recommendations in four areas: collaboration to enable innovation; crowdfunding; data access and use; and comprehensive credit reporting. The inquiry highlights that openness to innovation with regard to information sharing by government, existing participants and regulatory bodies is not strong in Australia. These policy settings will need to be addressed in order for the financial system, and the whole economy, to take full advantage of these opportunities to innovate.

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Consumer outcomes of the Financial System Inquiry

ANDREW C WORTHINGTON SF Fin

This paper reviews the eight recommendations of the 2014 Financial System Inquiry relating to consumer outcomes. These include strengthening product issuer and distributor accountability, providing specific product intervention power to the Australian Securities and Investment Commission (ASIC), and facilitating innovative product disclosure. They also include better aligning the interests of financial firms and consumers, raising the competency of financial advisers, and improving guidance and disclosure in general insurance. The response by Australian industry and consumer groups has been generally favourable despite the expected difficulties and lack of detail associated with the product design and distribution obligation, and concerns about the substantial product intervention powers extended to ASIC. Some unease also exists about the apparent inattention to key issues in the general insurance industry, especially underinsurance and noninsurance in home and contents insurance relating to natural disasters.

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Financial System Inquiry: A mixed bag on regulation

RODNEY MADDOCK

The regulatory chapter of the Financial System Inquiry Final Report is strongest in the areas where it chooses not to change current regulatory arrangements. The inquiry's overall approach reflects a view that problems of coordination, operation and governance are all amenable to improvements within the current structures. This paper is sceptical that the solutions proposed will be effective and points out the ongoing weaknesses in regulatory transparency and accountability.