

# **Independent governance expert report**

## Australian banking industry: Package of initiatives

### Report 3

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20 January 2017

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*This Report has been prepared for the Australian Bankers' Association in accordance with the engagement letter dated 19 May 2016 and available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/letter-of-engagement>.*

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# Executive summary

This is the third quarterly report on the progress of the Australian banking industry in implementing its package of initiatives to better protect consumer interests, increase transparency and accountability, and build trust and confidence in the industry.

The six initiatives, announced by the Australian Bankers' Association (ABA) on 21 April 2016, are:

1. Reviewing product sales commissions and product based payments;
2. Making it easier for customers when things go wrong;
3. Reaffirming support for employees who 'blow the whistle' on inappropriate conduct;
4. Removing individuals from the industry for poor conduct;
5. Strengthening the commitment to customers in the Code of Banking Practice; and
6. Supporting ASIC as a strong regulator.

The ABA has advised that in identifying and settling the initiatives in the reform package, the senior industry leadership acknowledged the need for the industry to respond to political and regulatory concerns and community expectations and to address concerns with banks' conduct and culture. The ABA has also noted that this was against the background that the global financial crisis had placed significant attention on the role of banks in society and criticism about the actual or perceived imbalance of power and/or information asymmetry between banks and customers. There was also recognition that the traditional concept of shareholder value creation is being challenged by the concept of the social licence to operate, and changing expectations of institutional and individual behaviours.

To achieve the objective of each of the banking industry's initiatives, a number of complementary measures have been formulated, with a high level of support being provided by bank chief executives and the ABA. The measures are predominantly focussed on preventing poor outcomes, but are also designed to give customers confidence that when things go wrong, the banks will do the right thing. The banks and the ABA have also agreed to develop performance indicators that measure trust and confidence at an aggregate level, with ties to each of the underlying initiatives.

Overall, progress continues to be made by the industry in advancing the initiatives, all of which involve a range of complexities and require engagement with multiple stakeholders. However, when viewed in terms of the original schedule for individual initiatives, performance has been mixed. Several measures that are designed to contribute to the achievement of the initiatives are advancing ahead of or in line with expectations (Initiative 2 and Initiative 3). Another is on track but is under some time pressure (Initiative 1), while the remainder are behind schedule due largely to an underestimation of the time required to progress matters which involve external dependencies (Initiative 4, Initiative 5 and Initiative 6).

Reflecting this slippage to timetable on a number of initiatives, the ABA has advised that:

- during this quarter, it has implemented interim milestones to continue, and to demonstrate, progress by the industry, especially relating to initiatives dependent on the actions of other parties; and
- during the next quarter, it will assess the industry implementation plan and the extent of changes required to the timetable as the program reaches its first year of the rollout.

It is the outcomes that matter most however, and it will be important for the industry to maintain both its focus and momentum to deliver on its commitments, even if some strategies are varied during the course of the industry's anticipated 18 month developmental phase for the initiatives.

The signs of progress to date have been most positive where the industry has control over the design and implementation of the measures that contribute to the initiatives. In circumstances where other parties carry the primary responsibility for progressing matters necessary to give effect to particular measures, it is evident that, despite consulting with third parties, optimistic assessments were made in estimating the time required by those parties to advance consideration of these matters.

It is also generally understood that there remains a significant body of work to be completed, including:

- to settle industry policy positions and staged approaches to implementation;
- for individual banks to review and, as appropriate, revise their policies and processes;
- for such policies to be embedded successfully into banking practices; and
- for sufficient information to be reported periodically on industry performance, to build confidence that the initiatives are having the desired effects on institutional behaviour and customer outcomes.

As the industry continues to advance its work, it does so in a dynamic environment with a number of related reviews being undertaken by Parliamentary committees, statutory bodies and the Treasury.<sup>1</sup> Necessarily, the industry reforms will need to accommodate any matters arising as a consequence of these reviews that lead to changes in legislation and regulations, revisions to standards or decisions by the banks to adopt revised policy positions.

Stakeholders consulted by this review on the progress in implementing the package of initiatives have been generally supportive of steps being taken, and in many cases are involved in industry working groups. At the same time, these stakeholders are quite reasonably withholding further judgement until there is greater clarity around positions that the industry intends to adopt to respond to existing concerns. That said, it will be critical to the design of the various measures and ultimate outcomes that stakeholders engage effectively to allow their perspectives to be clearly understood ahead of final industry positions being reached.

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<sup>1</sup> Refer to Section 3.2 and Appendix D

It is encouraging to see that the banks are continuing to take steps, including through the use of pilot studies, which are consistent with the objectives of the industry initiatives and overall purpose of the reform program.

Examples of such measures brought to the attention of this review include:

- Westpac has elected to remove all product related incentives, including any incentives for referrals, for the 2,000 tellers in the Westpac branch network. From 1 October 2016, incentives for tellers are now based entirely on customer feedback.
- ANZ has conducted a ‘test and learn’ pilot in one of its Retail Banking districts over the past 15 months to trial a different approach to front line incentives and measuring performance. During the trial staff performance measures and objectives were changed, with sales targets removed from incentive plans and replaced with customer-based metrics. ANZ has advised that the results, while not conclusive, lend support to the view that incentive plans may be best where they are based around whole of role performance.
- CBA is establishing a process to proactively identify when customers are in vulnerable circumstances to tailor its processes based on their needs. The goal is to allow the bank to identify multiple areas across the organisation where those customers may need special attention, either in the processes they go through or in the outcomes they receive.
- NAB has established a Voice of the Customer review to allow the bank to improve its own processes and make things easier for the customer going forward. This is a retrospective review, undertaken on resolved complaints, specifically so that the true voice of the customer is considered in the root cause analysis of customer complaints.

These case studies demonstrate in a very tangible way a commitment by individual banks to improve performance by varying existing policies and/or piloting new approaches, consistent with the industry objectives. They also demonstrate the multi-faceted nature of some of the challenges facing the industry, and how pilot approaches can inform longer-term solutions and encourage banks more broadly to review opportunities for improvement consistent with the industry objectives.

The extent of changes required by individual banks is likely to vary significantly, but will not be known until after the industry policy positions have been settled. It is increasingly apparent, however, that banks will need to reassess the clarity of their service commitment to customers in the light of the industry’s initiatives, with revisions reflected in bank policies, training and behaviours at all levels, if the desired outcomes of the industry reforms are to be achieved.

This year will be critical to the industry and individual banks in:

- making the decisions and policy changes required;
- instituting the arrangements necessary for implementing, and embedding the new approaches to achieve the industry objectives; and
- reporting on progress so that customers, stakeholders and the wider community can be better informed about the impact of the industry’s initiatives.

The ABA has advised that consumer research indicates there is low community awareness about the industry's actions to respond to customer concerns. In this context, there will be opportunities for key industry leaders to inform the community about the industry's progress with its reform measures and their ongoing commitment to delivering better outcomes for customers. It will continue to be important for the wider community to be informed of steps being taken by the industry to lift its performance on the path to building trust and confidence in the industry.

Inevitably, with such a significant reform program, there will be issues for the industry and individual banks to manage in pursuit of the industry goals. This is to be expected, and the industry's governance arrangements have been shown to be responsive in dealing with changing risks and circumstances, and progressing the various measures to which the industry has committed. It is also apparent that success will require a firm determination by chief executives and senior executives to see the changes through and engage with stakeholders on the changes and their effects, consistent with the industry commitments.

The next quarter is expected to see the delivery of key measures, including the independent reviews of product sales commissions and product based payments (Initiative 1), and of the Code of Banking Practice (Initiative 5). This work is critical to decisions that will shape industry standards and individual bank policies. My next report (Report 4) is scheduled to be delivered by 21 April 2017, 12 months following the industry announcement on its commitment to keep working hard to make sure they have the right culture, the right practices and the right behaviours in place to improve customer outcomes.

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# 1 Introduction

## 1.1 Industry initiatives to strengthen community trust

The Australian Bankers' Association (ABA) announced a package of six initiatives on 21 April 2016 to protect consumer interests, increase transparency and accountability, and build trust and confidence in banks.<sup>2</sup> The initiatives, and their associated objectives, are as follows:

**Initiative 1:** Reviewing product sales commissions and product based payments.

*Objective* - Strengthen the alignment of remuneration and incentives and customer outcomes.

**Initiative 2:** Making it easier for customers when things go wrong.

*Objective* - Ensure retail and small business customers have a voice and problems are resolved more efficiently. Ensure complaints are escalated and responded to within specified timeframes.

**Initiative 3:** Reaffirming support for employees who 'blow the whistle' on inappropriate conduct.

*Objective:* Promote highest standards of whistleblower protections and ensure a robust and trusted framework for whistleblowing.

**Initiative 4:** Removing individuals from the industry for poor conduct.

*Objective:* Demonstrate banks' commitment to improve practice and implement an industry register to identify poor conduct across all bank employees, including customer facing and non-customer facing roles, and promote good conduct and ethical behaviour.

**Initiative 5:** Strengthening the commitment to customers in the Code of Banking Practice.

*Objective:* Ensure the Code of Banking Practice adequately covers expected standards for banks and the relationship with customers, including standards for engagement between both parties.

**Initiative 6:** Supporting ASIC as a strong regulator.

*Objective:* Demonstrate banks' commitment to a well-regulated banking and financial services industry.

These initiatives were adopted because the industry recognised it needed to do more to build confidence in the manner it delivers services and to respond to community expectations that the behaviour of banks meets high ethical standards. The ABA has advised that the overall program objectives specifically acknowledge there is a 'trust gap' and articulate that the industry must, and wants to, close the gap between actual or perceived performance and expected performance.

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<sup>2</sup> Announced in the ABA media release on 21 April 2016 and available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/banks-act-to-strengthen-community-trust>

The ABA has advised that in identifying and settling the initiatives in the reform package, the senior industry leadership acknowledged the need for the industry to respond to political and regulatory concerns and community expectations and to address concerns with banks' conduct and culture. The ABA has also noted that this was against the background that the global financial crisis had placed significant attention on the role of banks in society and criticism about the actual or perceived imbalance of power and/or information asymmetry between banks and customers. There was also recognition that the traditional concept of shareholder value creation is being challenged by the concept of the social licence to operate, and changing expectations of institutional and individual behaviours. These considerations have been evident in discussions with senior industry leaders.

Under each of the industry's initiatives a number of more detailed measures have been developed, together with milestones for completion. The implementation plan for the package of initiatives is included in Appendix A.

## 1.2 Industry governance arrangements

In a reform program of this kind, sound governance arrangements are key to ensure that appropriate progress is made in implementing the initiatives, and, in particular, to ensure that the industry's stated objectives of protecting consumer interests, increasing transparency and accountability, and building trust and confidence remain clearly in focus.

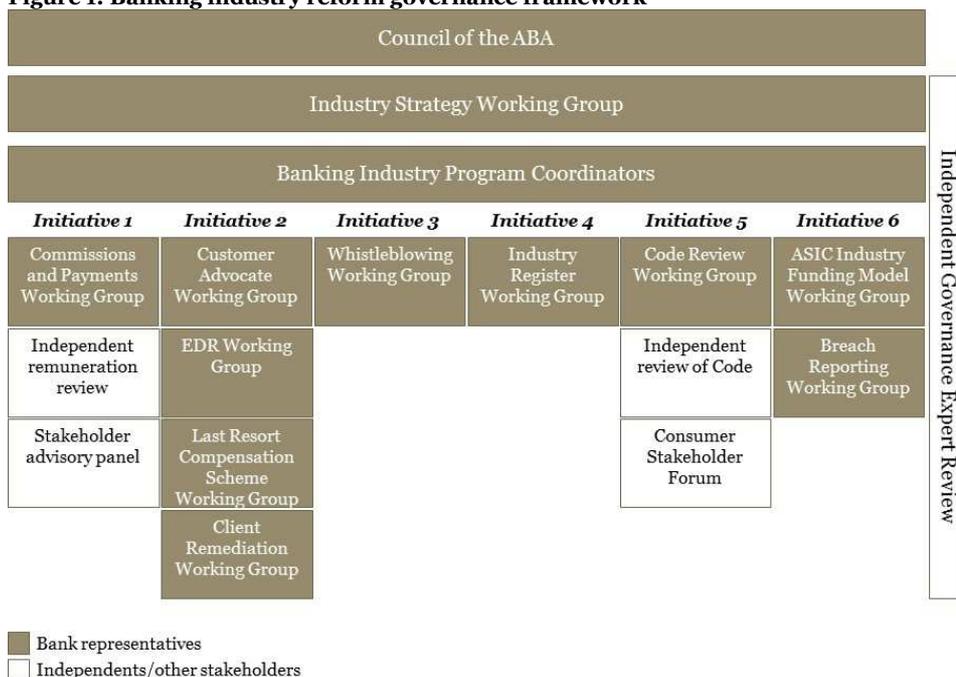
The governance arrangements are summarised in Figure 1. Key elements include:

- **ABA Council:** there are 16 members of the ABA Council. The Council is led by the Chairman, Mr Andrew Thorburn, National Australia Bank Group Chief Executive, and the Deputy Chairman, Mr Mike Hirst, Managing Director, Bendigo and Adelaide Bank. The ABA's Council provides guidance and leadership to the ABA on policy issues which affect the banking and financial sector;
- **Industry Strategy Working Group (ISWG):** a delegated committee of the ABA Council that is responsible for progressing the reforms and reporting on progress to the ABA Council. The ISWG comprises senior executives from the banks, each of whom has a direct reporting line to the bank chief executives;
- **Banking Industry Program Coordinators:** a committee on which participating banks are represented that is responsible for reporting to the ISWG, and co-ordinating efforts across the six initiatives at the industry-level and within individual banks. Coordinators are responsible for co-ordinating resources, identifying synergies across the initiatives, and streamlining industry efforts. The role of this group also includes the early identification of matters particular to their individual banks, or group of banks, which have the potential to delay or obstruct the successful implementation of the initiatives;
- **Working group committees for each of the initiatives:** comprising senior representatives from the banks who are heads of businesses, technical and legal specialists, and other relevant representatives, including consumer and regulatory experts. The working groups have been established with a specific mission, defined participation and work activities, and detailed work program and are tasked with developing industry positions and managing technical input; and

Additionally, the ABA has implemented other supporting arrangements to provide appropriate governance and program management, including:

- ABA Program Manager has been appointed reporting to the ABA’s Executive Director – Retail Policy. The Program Manager’s role is to work with the ABA team and the banks to manage overall implementation, including ensuring there are appropriate project management processes across the program and each of the initiatives.
- Quarterly key stakeholder meetings have been established with the regulators and consumer stakeholders. These meetings are in addition to meetings and discussions on each of the initiatives, and are intended to ensure overall progress and engagement.

**Figure 1: Banking industry reform governance framework**



The ABA has advised that that banking industry reform package was designed to improve consumer protections and raise banking standards for those banks with retail customers. Twenty-one of the ABA’s member banks have now confirmed their active involvement in the reform package. Since my second report, the Bank of Sydney has confirmed its participation. A list of participating banks, and reference to those banks not participating,<sup>3</sup> are included in Appendix B.

The ABA has also revised its Better Banking website<sup>4</sup> to better promote the initiatives and provide a central repository for the industry’s actions including links to the respective independent review websites and more prominent information about independent governance and oversight. Feedback from the public on the package of initiatives and the independent review can be made via this website.

The governance approaches have placed a particular focus on dealing with resource and timetable constraints as they have arisen. Adjustments have been made to manage the range of pressures on resources, timetable and deliverables. Where considered necessary, additional resources have been committed.

<sup>3</sup> Refer to Section 2.3 of Report 2

<sup>4</sup> [www.betterbanking.net.au](http://www.betterbanking.net.au)

Implementation of the industry positions by individual banks is their responsibility; as is any decision on the early adoption of some measures. In recognition of the varying level of program coordination and resources among banks, the ABA has implemented a fortnightly open forum with banks to share information on any concerns or implementation issues, particularly from the smaller banks.

### **1.3 Background to the independent review and summary of prior reports**

The ABA appointed me as an independent governance expert to report quarterly on the progress of the industry in implementing its announced package of initiatives, while at the same time maintaining a focus on the industry objectives of protecting consumer interests, increasing transparency and accountability, and building trust and confidence in banks. The terms of my engagement are available on the ABA website.<sup>5</sup> PwC Australia has agreed to support me in the execution of my responsibilities, including in the provision of secretariat functions, assistance in report preparation and with stakeholder consultation, and in the provision of senior banking industry expertise and advice in relation to industry practices and trends.

The independent governance expert review is not an audit. While I will be able to assess progress in development of the various measures, progress being made by banks will be advised by the banks or other stakeholders. Feedback provided to assist my preparation of the quarterly reports by the banks is made through the chief executive officer of each bank.

The first Independent Governance Expert Review Report (Report 1), was issued on 14 July 2016<sup>6</sup> and outlined the nature of the initiatives and the methodology for the review. Overall, the report noted the commitment of the senior industry executives to the objectives of the initiatives, as well as the understanding that new measures need to be complementary to other programs of work being undertaken in the industry. In particular, it was observed that:

- a deal of consideration had already gone into the initiatives and issues across the broader industry; however to progress the initiatives further within the proposed timeframe, the banks would need to ensure appropriate resources were allocated;
- measures proposed within the six initiatives need to be integrated with the banks' other responsibilities and business imperatives, and consider existing programs of work being undertaken by the regulators;
- to assess whether sustainable change within the industry over the longer term occurs, indicators of success would need to be developed and monitored over time; and
- while the implementation plan anticipated completion by December 2017, full realisation of benefits will require a sustained management focus by the banking industry and inevitably take longer for the benefits to be fully apparent to consumers.

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<sup>5</sup> Available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/letter-of-engagement>

<sup>6</sup> Available at [http://www.betterbanking.net.au/wp-content/uploads/ABA-Report-1\\_Final\\_14-7-16.pdf](http://www.betterbanking.net.au/wp-content/uploads/ABA-Report-1_Final_14-7-16.pdf)

Report 2 was issued on 21 October 2016<sup>7</sup> and noted that, overall, good progress had been made in advancing the various measures in the three months since the previous report although some measures were being closely monitored for slippage. The report expanded on the governance arrangements in place to provide assurance that appropriate progress in implementing the initiatives is being made, noted some refinements to the objectives and measures since the industry announcement on 21 April 2016, and clarified the level of participation by the ABA member banks.

In addition, amongst other things, it was noted that:

- the task of identifying performance indicators was in the early stages of development, and positive steps had been taken to advance the work required in recognition of its importance;
- banks were taking early steps to adopt industry positions, in some cases in advance of the development of the industry policies and original schedules, in order to demonstrate in a very tangible way a commitment to improve performance consistent with the industry's objectives; and
- it was apparent from the consultations undertaken that there is a high level of support among the banks for the industry's initiatives, but that bringing about the necessary changes will require an ongoing commitment by the leadership group within each bank to show the way, engage with staff and stakeholders on the revised approaches, and sustain the focus required to meet the industry goals.

The next report of this review, Report 4, is scheduled to be issued by no later than 21 April 2017.

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<sup>7</sup> Available at <http://www.betterbanking.net.au/wp-content/uploads/Ian-McPhee-Report-2-21-10-16.pdf>

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## **2 Industry implementation progress**

### **2.1 Introduction**

The package of industry initiatives is based on measures that involve the development of industry policies or otherwise require an industry-level response. Completion of these measures is necessary to provide appropriate principles, policies and/or frameworks to guide the industry and individual banks in tailoring approaches to the achievement of the industry objectives.

This chapter reports on the status of the industry's program of work under each of the initiatives, along with the progress made by the industry in developing performance indicators against which the success of the initiatives can be evaluated by banks, the industry and stakeholders.

### **2.2 Update on progress of initiatives**

The ABA has advised that a major focus during the past quarter has been to identify initiatives where implementation can be accelerated in order to help build trust and confidence in banks while ensuring sufficient time for consultation and engagement; and that the industry is actively balancing the additional time to manage complexity and stakeholder engagement against the need to demonstrate solid progress within the nominated timeframes. Management arrangements for the initiatives at an industry-level have been adjusted to accommodate this balance.

The ABA has continued to engage with key stakeholders, including consumer groups, employee representatives and regulators in formulating industry positions on each of the initiatives, advising that this quarter alone 52 stakeholder meetings have been held, excluding industry working group meetings. Stakeholders consulted by this review on the progress in implementing the package of initiatives have been generally supportive of steps being taken. At the same time, these stakeholders are quite reasonably withholding further judgement until there is greater clarity around policy positions that the industry intends to adopt to respond to existing concerns. That said, it is now coming time for their perspectives on the design of the various measures to be clearly understood, ahead of final industry positions being reached, so as to ensure that due weight can be given to these views and so the industry is clear that solutions are addressing stakeholder concerns.

#### ***Initiative 1: Reviewing product sales commissions and product based payments***

The review of product sales commissions and product based payments was initiated to inform the development of industry policies that strengthen the alignment of remuneration and incentives with customer outcomes. The independent reviewer, Mr Stephen Sedgwick AO, has advised that the review is on track to be completed by the end of March 2017, in accordance with the timetable set. The results of Mr Sedgwick's investigations and analysis to date have informed

an issues paper, which was published on 17 January 2017.<sup>8</sup> An invitation for a further round of submissions has been extended to the banks and other stakeholders on the matters raised in the issues paper, with submissions requested by 10 February 2017.

Extensive information has been provided to the review in respect of the remuneration structures and practices for retail banking employees and their supervisors and managers, as well as the associated compliance and governance arrangements. Similar information has also been provided in respect of each bank's relationships with third party providers, such as brokers and other referral sources.

There is common ground between the independent review of product sales commissions and product based payments and ASIC's review of mortgage brokers, which it expects to finalise in early 2017. As a consequence, the independent reviewer has consulted with ASIC during the course of his research and analysis.

Further, the industry has provided additional resources to allow the independent reviewer to consider practices in significant banks operating in the United Kingdom, given the amendments to remuneration structures and practices that have taken place there in recent years and whether the learnings can be leveraged for the benefit of the Australian banking industry.

It is evident from stakeholder feedback that there is some diversity of views about the scope of the independent review of product sales commissions and product based payments and in particular whether the review is too narrowly focused on retail banking employees and their supervisors and managers and does not go far enough in addressing broader banking remuneration practices. However, it is important to recognise that the terms of reference for the independent review,<sup>9</sup> determined by the ABA following targeted consultation, acknowledges that the review builds on the recent Future of Financial Advice (FOFA) reforms by focussing the review on remuneration structures (both monetary and non-monetary) in retail banking, including customer and non-customer facing roles as well as third-party providers involved in the sale, offer and distribution of retail banking products.<sup>10</sup>

The terms of reference also allow the reviewer to provide observations and insights from the review to assist banks to ensure they have overarching principles on remuneration and incentives to support good customer outcomes and sound banking practices, the scope of which is broader than retail banking. The ABA confirmed that in developing this initiative, it was clear that stakeholder concerns were not limited to just retail bank staff but others across banks including senior executives and employees engaging in activities which could impact on products and services offered to retail customers. Further, the ABA has advised that the intent of the independent review was to consider those aspects of the law not covered by the FOFA reforms, and to consider remuneration and incentives more broadly.

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<sup>8</sup> Available at <http://retailbankingremreview.com.au/>

<sup>9</sup> Available at <http://retailbankingremreview.com.au/terms-of-reference/>

<sup>10</sup> Retail banking products include basic banking products as defined by Section 961F of the *Corporations Act 2001*, general insurance products and consumer credit insurance.

In its media release of 17 January 2017<sup>11</sup> welcoming the publication of the issues paper by Mr Sedgwick, it is noteworthy that the ABA drew attention to the full scope of the review's terms of reference.

The steps in implementing this initiative, which is scheduled for completion in December 2017, are complex, challenging and of considerable interest to a range of stakeholders. On this basis there remains a heightened timing risk associated with the measures comprising this initiative, and thus it continues to be closely monitored by the ISWG and program coordinators.

## ***Initiative 2: Making it easier for customers when things go wrong***

Initiative 2 comprises the following measures: establishing a customer advocate in each bank; supporting the broadening of external dispute resolution schemes; working with ASIC to expand customer remediation programs; and evaluating the establishment of an industry-wide mandatory last resort compensation scheme. The status of these measures is summarised as follows:

### ***a) Establishing a customer advocate in each bank***

The major banks<sup>12</sup> and three smaller banks have advised of the appointment of their dedicated customer advocates or customer advocate functions.

The other participating banks and the ABA have been working through the implementation of the Guiding Principles published on 30 September 2016 to give effect to the commitment for each bank to have a dedicated customer advocate. Two industry workshops have been held to share ideas and experiences to assist implementation in light of customer needs and business models as well as work through implementation challenges.

The ABA has advised that the challenges include:

- Smaller banks with very low numbers of customer complaints, and whether a part-time or dual resource is the best solution for their customers, keeping in mind specified legal timeframes, or whether an existing resource with dedicated time but available full-time for this function is a better customer outcome;
- Smaller banks which are part of larger banking and financial services groups, and whether the customer advocate is better positioned to address issues across the entire group or in relation to banking matters, noting the commitment is for banks (rather than for the broader corporate group); and
- Smaller banks with resource constraints, and whether streamlining and amalgamating with external dispute resolution assistance would benefit their customers and provide improved advocacy and problem resolution as well as the ability to better manage systemic issues.

Notwithstanding these challenges, the ABA has advised that it will work with the banks to have dedicated customer advocates introduced by end-March, which, if achieved, would be ahead of the original schedule of end-June. The ABA has also recognised that it is possible that the Guiding Principles may need to be amended

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<sup>11</sup> Available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/aba-comments-on-interim-sedgwick-review-report>

<sup>12</sup> Major banks refers to ANZ, CBA, NAB and Westpac

to provide additional guidance to the participating banks on particular aspects, such as separation from the business. If this turns out to be required, the ABA has undertaken to involve key stakeholders and to consult with me prior to finalisation of any revisions.

Separately, this measure envisages that customer complaints directly relating to a particular bank, and third parties appointed by the bank, will be appropriately escalated and responded to within the specified legal timeframes, such as 45 days.<sup>13</sup> The industry's work on performance indicators and related benchmarks (see section 2.3 below) will be important to allow for the assessment of this measure.

### ***b) Supporting the broadening of external dispute resolution schemes***

The industry's recent efforts to progress this measure have involved settling industry positions and contributing to key government reviews currently under way.

The ABA has engaged with the Small Business Loans Inquiry being undertaken by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) into the laws and practices governing financial lending to small business (the 'Carnell Inquiry'), including the provision of an industry submission by the ABA and the appearances at hearings by the major banks. The findings of the Carnell Inquiry had not been released at the time of preparation of this report but are expected to be published shortly.

The ABA has also provided a submission to Treasury's 'Review of the financial system external dispute resolution framework' (Ramsay Review), which released its interim report on 6 December 2016. This interim report recommended, among other things, merging the Credit and Investments Ombudsman and Financial Ombudsman Service (FOS) as well as creating a new ombudsman scheme for superannuation disputes. Following its release, the ABA has advised that it is participating in additional consultation with the review panel in advance of publication of the final report by the 31 March 2017, including preparing another submission due to be made by end-January.

In its initial submission to the Ramsay Review, the ABA has proposed an integrated system, or body, for all customers of financial institutions, including credit unions, building societies, smaller credit providers, insurance providers, superannuation funds as well as banks, to access external dispute resolution services. It has suggested that a more integrated external dispute resolution framework will remove some complexities of the current arrangements thereby making it easier for all financial services customers, including small business, to access. In addition, the ABA has advocated an increase in the monetary limits of the external dispute resolution scheme to 'ensure the appropriate disputes are heard and compensation is meaningful'. The ABA has advised that this industry position was also submitted to the Carnell Inquiry.

### ***c) Working with ASIC to expand customer remediation programs***

This measure was completed in September 2016 with the release of ASIC's Regulatory Guide 256: *Client review and remediation programs conducted by advice licensees* [RG 256], which sets out guidance for review and remediation activities for retail clients who have suffered loss or detriment as a result of misconduct or other compliance failures by financial advisers in giving personal

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<sup>13</sup> The law specifies different timeframes for certain complaints and disputes.

financial advice. The banks are now working through the implications for existing bank policies and procedures as discussed further in Chapter 3 of this report.

In the context of improving trust in the financial sector more generally, it is noteworthy that ASIC is encouraging a broad application of RG 256. While RG 256 focuses on the provision of personal advice by AFS licensees (including banks and their subsidiary entities), it also encourages other financial entities (such as superannuation trustees, credit providers or financial product providers) to use these principles when undertaking review and remediation activities.<sup>14</sup> The ABA supports ASIC's broader application to cover other areas of banking business, including retail banking products and services, and more broadly across the financial sector.

#### *d) Evaluating the establishment of an industry wide mandatory last resort compensation scheme*

In addition to external dispute resolution, the Ramsay Review is also considering a last resort compensation scheme, with observations included in its interim report published on 6 December 2016. As noted above, the ABA is continuing to provide input to the review panel in advance of the final report. The industry, as part of this initiative, has committed to evaluating the establishment of an industry-wide, mandatory last resort compensation scheme covering financial advisers. It also committed to supporting a prospective scheme being introduced where consumers of financial products who receive a FOS determination in their favour would have access to capped compensation where an adviser's professional indemnity insurance is insufficient to meet claims.

Overall, the ABA supports<sup>15</sup> a last resort compensation scheme with the following design principles:<sup>16</sup>

- **Limited liability:** The scheme should pay compensation (capped) to consumers of financial products and services (retail clients as defined by the law) where professional indemnity insurance is insufficient to meet claims (e.g. where fraud is a policy exemption), the business is bankrupt or insolvent (and run off cover is unavailable), and where an approved external dispute resolution body determination is made. The scheme is not intended to cover market-linked investment losses;
- **Priority of claims:** The scheme must be a last resort, and alternative compensation arrangements should be pursued initially, including resorting to the financial resources or capital reserves of the AFS licensee;
- **Industry-wide and mandatory:** The scheme should require all AFS licensees who offer a financial product to a retail client to be a member and contribute to the scheme as a condition of their licence (with the exception of deposits and general insurance which are covered by the Financial Claims Scheme); and
- **Prospective:** The scheme should cover consumers of financial products who receive an approved EDR body determination in their favour. The ABA does not support a scheme applying retrospectively.

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<sup>14</sup> ASIC Regulatory Guide 256 paragraph RG 256.8

<sup>15</sup> AMP has advised that it does not support a mandatory compensation scheme of last resort. AMP considers that AFSL holders that offer products to retail customers should meet minimum professional indemnity insurance and capital requirements so that customers can have confidence that internal dispute resolution and external dispute resolution determinations will be paid. AMP has made a separate submission to the Ramsay Review

<sup>16</sup> Refer to the ABA's submission to the Ramsay Review available at [http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/Consultations/2016/Review%20of%20the%20financial%20system%20external%20dispute%20resolution%20framework/Submissions/PDF/Australian\\_Bankers\\_Association.ashx](http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/Consultations/2016/Review%20of%20the%20financial%20system%20external%20dispute%20resolution%20framework/Submissions/PDF/Australian_Bankers_Association.ashx)

The ABA is also financially supporting and contributing to a project being undertaken by Oliver Wyman, commissioned by FOS, into the design and structure of a last resort compensation scheme for financial advice claims. Such a scheme may require some legislative and/or regulatory support, necessitating engagement with government.

### ***Initiative 3: Reaffirming support for employees who 'blow the whistle' on inappropriate conduct***

Following public consultations on the draft principles, the ABA published Guiding Principles – Improving Protections for Whistleblowers on 21 December 2016.<sup>17</sup>

This includes guidance on the following core principles:

- a) Bank executives demonstrate strong and visible leadership;
- b) The whistleblower policy allows for disclosures on a range of issues from a range of people with a connection to the bank;
- c) Banks provide clear guidelines on the reporting and investigation process;
- d) Banks provide support and protections for whistleblowers;
- e) The program is known, accessible, and effective training is provided; and
- f) Ongoing monitoring of awareness and effectiveness.

Alongside the development of the industry's Guiding Principles, the ABA is looking to a number of external reviews to inform any amendments that may be required to the Guiding Principles. These reviews include the inquiry by the Parliamentary Joint Committee on Corporations and Financial Services<sup>18</sup> and Treasury's Review of Tax and Corporate Whistleblowing Protections in Australia.<sup>19</sup> The ABA has advised that revisions to its Guiding Principles will be considered should the outcomes of these reviews warrant changes.

The ABA has advised that the four major banks have committed to accelerating the implementation of the Guiding Principles by 31 March 2017, and other participating banks will implement the principles thereafter by 30 June 2017.

### ***Initiative 4: Removing individuals from the industry for poor conduct***

The development of an industry register, as a mechanism to improve recruitment practices and decisions in the banking industry, is one of the more difficult measures to implement given the legal issues involved. The industry is mindful of the need to balance varying stakeholder interests, including promoting fair treatment of employees, addressing concerns with misconduct, and fostering good conduct and ethical behaviour.

As the ABA has advanced its consultations with stakeholders on the design principles for the industry register and the register's implementation, it has determined that a possible approach to manage the legal and privacy issues is the development of a statutory register. If this is confirmed as the preferred approach, the implementation of such a register will be contingent on legislative and/or

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<sup>17</sup> Available at [http://www.betterbanking.net.au/wp-content/uploads/Final\\_Whistleblower\\_Guiding\\_Principles-Dec-2016.pdf](http://www.betterbanking.net.au/wp-content/uploads/Final_Whistleblower_Guiding_Principles-Dec-2016.pdf)

<sup>18</sup> Parliamentary Joint Committee on Corporations and Financial Services inquiry: Whistleblower protections in the corporate, public and not-for-profit sectors

<sup>19</sup> Refer to consultation paper at <http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/Review-of-whistleblower-protections>

regulatory support which introduces an external dependency to the effective establishment of such a register, and its key role in achieving the objective of this initiative. On this basis, the implementation period would likely be outside of the timeframe originally proposed for this initiative.

With this in mind, in addition to its continuing work on the industry register and as an interim milestone, the industry is seeking to deliver a solution to address poor conduct moving around the industry and to provide for better informed recruitment practices and decisions. The ABA is progressing the development of a Conduct Background Check Protocol for bank employees, and has settled the design principles with banks and other stakeholders. This protocol builds on the principles of the Reference Checking and Information Sharing Protocol for financial advisers, which was published by the ABA on 20 September 2016.<sup>20</sup>

The ABA envisages that the Conduct Background Check Protocol will be adopted in a staged approach after its approval by the ISWG. The major banks are expected to adopt the protocol by 30 June 2017, with the smaller banks expected to adopt the protocol by 30 September 2017.

The ABA has been consulting with key stakeholders, including ASIC, the Finance Sector Union and consumer groups, as well as the Office of the Australian Information Commissioner. Some stakeholders have concerns about the industry register, and will continue to be consulted as the banks and the ABA work through the details.

### ***Initiative 5: Strengthening the commitment to customers in the Code of Banking Practice***

The ambitious timetable for completion of the independent review of the Code of Banking Practice was foreshadowed in my first report, and acknowledged as such by some of the participant banks. Notwithstanding the provision of additional resources by the industry to support the independent reviewer to complete the review, it is the case that the independent review of the Code of Banking Practice has slipped behind the original schedule, with the final report currently expected to be provided to the ABA by 31 January 2017. It had been originally anticipated that the report would be available by 31 December 2016. This delay is likely to have implications for the measures that are dependent on this, namely updating the Code in the light of the review of the independent report, and implementing those changes by individual banks.

I am advised by the independent reviewer, Mr Philip Khoury, that the review has been extensive in the level of consultation sought and that key concepts are continuing to be tested with key stakeholders, including the regulators and consumer groups. It is important that the review of the Code of Banking Practice is thorough and adequately covers expected standards for banks and their relationship with customers, including standards for engagement between both parties, which is the objective of this initiative. To this end, adjusting the original timeframe for this initiative by one month in order to allow for the completion of the review of the Code, is an appropriate course of action for the ABA and Mr Khoury at this time. Any further slippage would have more serious consequences.

The findings of the Carnell Inquiry and the Ramsay Review have the potential to impact revisions to the Code of Banking Practice. The major banks' public appearances before the Carnell Inquiry provided indications of potential areas of

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<sup>20</sup> <http://www.bankers.asn.au/financial-advice>

revisions, particularly in banks dealings with priorities for small businesses and ASIC approval of a revised Code.<sup>21</sup>

Given these uncertainties, the ABA has confirmed its previous advice that it is unable to commit at this time to a revised timetable for redrafting the Code. The ABA has also advised that the banks and the ABA are currently assessing all materials and submissions made publicly available in the independent review as well as the Carnell Inquiry and Ramsay Review, and are identifying priorities to allow the industry to be well placed to respond to the reviews. This remains a matter of considerable importance given the critical role of the Code of Banking Practice in setting key commitments and obligations to customers. It is expected that an update on the timetable for this measure will be included in my next quarterly report.

### ***Initiative 6: Supporting ASIC as a strong regulator***

To demonstrate banks' commitment to a well-regulated banking and financial services industry, the industry has committed to supporting ASIC as a strong regulator. The measures highlighted by the industry in support of this initiative are heavily dependent on interactions with government and ASIC to implement a 'user pays' industry funding model for ASIC and to enhance the current breach reporting framework. All phases of this initiative were behind the planned timetable at the date of my last report.

The ABA has now completed its submission on the Treasury consultation paper on ASIC's funding model and in doing so, engaged with ASIC and Treasury in roundtable discussions on the proposed model. From an industry perspective, the planning and agreement-of-principles phase of this measure is complete, recognising that further input by the industry may be required as the proposals are further developed. While it is now a matter for government to consider the funding model, it is anticipated that forecast costs for the banking and financial services industry will be published mid-year, with the necessary legislation and regulations in place thereafter. If this timetable is met, it would most likely be outside the 30 June 2017 completion date initially expected by the ABA and included in the implementation plan, a delay that had been identified at the time of Report 2.

The ABA has also developed a position paper on breach reporting principles. The intention of the ABA is to publish this position paper following the release of Treasury's consultation paper on breach reporting being issued as part of the government's recently announced ASIC Enforcement Review.<sup>22</sup> On this basis the industry has completed the agreement-of-principles phase for this measure. The ABA has advised that it will use the position paper in consultations as part of the industry's participation in the ASIC Enforcement Review. Based on that announcement, the ABA does not expect these consultations to be completed until after December 2017. As foreshadowed in Report 2, this is outside of the timeframe initially set for completion of this measure.

Implementation of the ASIC industry funding model and improvements to the breach reporting regime are contingent on government processes being completed.

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<sup>21</sup> Refer to responses to public hearings available at <http://www.asbfeo.gov.au/live-streaming>

<sup>22</sup> Refer announcement available <http://www.treasury.gov.au/ConsultationsandReviews/Reviews/2016/ASIC-Enforcement-Review>

## 2.3 Update on development of performance indicators

Reflecting best practice, senior leadership within the banks have acknowledged the need for performance indicators to assess the performance of the package of industry initiatives in driving behavioural change and having a positive and sustained impact for customers. In order to assess the initiatives in meeting their stated objectives, the ABA, in conjunction with the banks, is developing a set of performance indicators to demonstrate the industry's performance in terms of the objectives for each initiative. This work is progressing with the early development of a draft set of performance indicators. While this progress is encouraging, it will be important to the overall objective of the package of initiatives to assess the industry's effectiveness in protecting consumer interests, increasing transparency and accountability, and building trust and confidence in banks. These overarching indicators will be challenging for the industry to develop, and will require substantive input from stakeholders.

The industry acknowledges the development of the success indicators is a challenging process given the interrelated nature of some of the initiatives, the need to ensure consistency in defining and measuring indicators between banks and the complexity in identifying representative indicators. The ABA and bank representatives have held a number of workshops facilitated by external experts from a bottom-up, customer-centred perspective. The ABA anticipates that the outputs of these workshops will be socialised with other stakeholders for comment and ratified by 31 March 2017.

It is encouraging to see the focus being given to the development of an appropriate set of performance indicators to allow the industry to demonstrate its performance in the areas that have been highlighted as requiring better outcomes for customers. In itself, this is a very positive sign of industry commitment. Of course, there is still much to be done to settle the industry position and the extent of reporting anticipated on, or by, individual banks. It is a good start, however, that the industry has put in place effective processes to advance work on this critically important aspect of its reform program and to progress external reporting of performance.

## 2.4 Concluding remarks

The ABA has reached out to engage with key stakeholders, including consumer groups, employee representatives and regulators in formulating industry positions on each of the initiatives. Stakeholders are quite reasonably withholding further judgement until there is greater clarity around positions that the industry intends to adopt but continued engagement will be important in order to align expectations where possible and provide the basis for effective communication on an ongoing basis in relation to the achievement of the industry objectives, and the related reporting of outcomes. It is now coming time for their perspectives on the design of the various measures to be clearly understood, where this is not already apparent, ahead of final industry positions being reached.

As Figure 2 highlights, in the past quarter there has been an increase in the number of both planning and agreement-of-principles milestones completed since Report 2. Figure 2 also indicates that the number of milestones relating to completing implementation has deteriorated since Report 2 in the sense that four are now on track (R2: six) and the milestone timing for four measures will now require adjustment (R2: two). In general, those measures for which the ABA has primary responsibility are progressing best, while other initiatives are proving more challenging due to particular complexities or the reliance on other parties to carry primary responsibility.

**Figure 2: Implementation status of the 12 trackable measures<sup>23</sup>**

Milestone Status	Planning		Agreement of Principles		Complete Implementation	
	R3	R2	R3	R2	R3	R2
Completed	10	8	7	4	1	1
On track	-	2	-	3	4	6
On alert	2	2	4	3	3	3
Adjustment required	-	-	1	2	4	2
Total	12	12	12	12	12	12

Overall, of the 12 planning milestones, ten (R2: eight) have now been completed, while two (R2: two) remain on alert for slippage against the implementation plan. Of those which remain on alert, both relate to Initiative 1 (Reviewing product sales commissions). The planning milestones for Initiative 6 (Supporting ASIC) have now been completed.<sup>24</sup>

Of the 12 agreement-of-principles milestones, seven (R2: four) are complete, four (R2: three) are now on alert for slippage against the implementation plan and one (R2: two) will not achieve the original schedule. Those on alert relate to Initiative 1 (Reviewing product sales commissions) which is consistent with the position outlined in Report 2, but Initiative 4 (Removing individuals from the industry for poor conduct) has also become at risk given this initiative might now be dependent on legislative or regulatory reform for the development of an industry register.<sup>25</sup>

The schedule for Initiative 5 (Code of Banking Practice review) has also slipped by one month, with the independent reviewer due to provide his final report to the ABA by 31 January 2017. Notwithstanding, the industry has commenced planning and identifying priorities with a view to limiting the impact of this delay on the subsequent steps.

Of the 12 complete-implementation milestones, one measure (R2: one) is complete (Measure 2.3: Working with ASIC to expand the current review of customer remediation programs to all financial advice and products). In addition, four (R2: six) of the implementation milestones are on track (Measure 2.1, 2.2, 2.4 and 3.1). Reflecting the complexity of Initiative 1 (Reviewing product sales commissions) the three implementation milestones for that initiative remain on alert as a matter of caution (R2: three). The remaining four (R2: two) complete-implementation measures are now unlikely to achieve the original implementation milestones and so are marked as red ('Adjustment required to existing plan') in Appendix A. Two of those marked red relate to Initiative 6 (Supporting ASIC), as they were in Report 2.

<sup>23</sup> Quantification and summary status of milestones is based on the information outlined in the implementation plan contained in Appendix A.

<sup>24</sup> In Report 2, it was reported that two planning milestones were track. Both have now been completed.

<sup>25</sup> In Report 2, it was reported that three agreement-of-principles milestones were on track. One is now complete and the other two are on alert for slippage.

The implementation milestone for Initiative 4 (Removing individuals from the industry for poor conduct) has been marked as red in Report 3, given the implementation approach and timetable is now clearer. The implementation milestone for Initiative 5 (Code of Banking Practice review) is also marked red because of the delay to complete the independent review.

In summary, two of the six initiatives are progressing well, while Initiative 1 (Reviewing product sales commissions) is still on track, but remains under close management. While the first measure of Initiative 5 (Code of Banking Practice review) will not meet its planned implementation deadline due to the independent reviewer seeking additional time to complete the review, the ABA is awaiting the findings of this review and other developments that may affect the Code prior to settling an industry response and timetable for implementation of this initiative.

The ABA has acknowledged that Initiative 4 (Removing individuals from the industry for poor conduct) is unlikely to meet the timing of in the implementation plan and Initiative 6 (Supporting ASIC) will not meet the original timing.

In reviewing progress to date, it is evident that, despite consulting with other parties, optimistic assessments were made in estimating the time required by those parties to advance consideration of these matters. Nevertheless, progress has been made in reaching industry positions and in consultations with the responsible parties. This highlights the interconnected nature of many of the initiatives, and the need for strong coordination, as well as early and regular engagement with key stakeholders, to align expectations and outcomes.

Recognising the slippage to the timetable on a number of initiatives, the ABA has advised that, during the next quarter, it will assess the industry implementation plan in light of the above considerations and changing circumstances, and advise to what extent changes are required to the timetable.

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# 3 Implementation by the banks

## 3.1 Introduction

This chapter outlines the progress of individual banks in implementing measures that collectively are expected to deliver on the objectives of the initiatives. Consistent with Report 2, feedback was requested from those participating ABA member banks on:

- the status of the measures (or actions) that will contribute to the nominated initiative;
- the work planned for the next three months; and
- the current judgement as to any significant risks in achieving the objectives of the initiative, and appropriate mitigants.

All participating banks responded to this request for information. In addition, banks were invited to submit case studies that demonstrated specific actions being taken to address the objectives of the initiatives or otherwise inform banks of implementation issues. Selected responses are included in this chapter.

## 3.2 Progress on initiatives

There is a high level of engagement by individual banks in the industry reform program, with many represented on multiple working groups and involved in submissions to the various external reviews<sup>26</sup> taking place. The major banks are contributing proportionately to the development work given their capability, and providing assistance to the smaller banks where this is appropriate. Some of the smaller banks have advised the review that they have been challenged to allocate the resources required by the program as initiatives have necessarily deepened as the inherent complexity of the issues have become apparent. As previously mentioned in Section 1.2, in recognition of the varying level of program coordination resources among banks, the ABA has implemented a fortnightly open forum with banks to share information on any concerns or implementation issues, particularly from the smaller banks.

The extent of changes required by individual banks in the light of the industry reforms is likely to vary significantly between banks. Nevertheless, it will be important for the success of the industry's reforms that the clarity of the banks' service commitment to customers, in the light of the initiatives, is reflected in bank policies, training and behaviours at all levels. As the focus shifts from the establishment of industry positions to implementation within banks, the banks have advised that internal project governance arrangements have been established, or are being established, to oversee the implementation of the measures. Implementation progress by the banks in respect of each initiative is outlined below.

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<sup>26</sup> Appendix D refers to a range of external reviews taking place and their intersection with the ABA's package of initiatives.

## ***Initiative 1: Reviewing product sales commissions and product based payments***

As noted in Chapter 2, a review of product sales commissions and product based payments is being undertaken by Mr Stephen Sedgwick AO. Over the course of the last three months the banks have been heavily focused on contributing information and data to the review, including remuneration practices in respect of retail banking employees and their supervisors and managers and information about how these practices intersect with each bank's performance management, assurance, compliance, risk management and similar systems.

Similar information has also been provided in respect of each bank's relationships with third party providers, such as brokers and other referral sources.<sup>27</sup> It is apparent that the requests for information have been quite extensive requiring detailed responses by individual banks. The data formed a key input into the issues paper which Mr Sedgwick released on 17 January 2017.

Some banks have commenced adjusting remuneration structures in advance of the release of independent review report, including making changes to performance scorecards of banking staff to give more weight to customer measures in lieu of product sales. This is highlighted in Case Study A below, provided by Westpac Banking Corporation.

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### ***Case Study A: Remuneration and incentive arrangements***

Westpac regularly reviews its remuneration and incentive arrangements, considering multiple perspectives including customer, employee and shareholder. The bank recently recognised the need to vary its incentive arrangements for tellers to ensure not only that they are aligned to our strategy and deliver fair, suitable and clear customer outcomes but also that the bank change practices that might be perceived by customers as creating potential conflicts of interest.

Westpac tellers process customer transactions, identify opportunities to meet customer needs through referrals and ultimately seek to delight and retain customers through responsive and seamless customer service. Previously, incentive arrangements for tellers included an objective (weighted at 40%) linked to the referral of a customer to an appointment with a specialist banker to discuss their financial needs. The balance of the tellers' scorecard objectives included customer advocacy and branch financial performance. An average performing teller could earn an additional \$300 per annum and a high performing teller an additional \$1,100 per annum for their performance against these objectives. Although the amount of the incentive was relatively modest, Westpac felt that providing a financial incentive for these referrals could have led customers to question the motivation of the teller and/or the quality of service they received.

As part of Westpac's commitment to eliminate perceptions of conflicts of interest, the bank elected to remove all product related incentives, including any incentives for referrals, for the 2,000 tellers in the Westpac branch network. From 1 October 2016, incentives for tellers are based entirely on customer feedback. This incentive change was coupled with an enhanced performance management framework, which provides greater clarity for employees on the expectations in their roles so tellers still focus on helping customers meet their financial needs. This change demonstrates Westpac's commitment to move to eliminate perceptions of conflicts of interest in the way front line staff get paid, and aims to build trust and address customer concerns.

Westpac will monitor the impact of the change to the bank's teller scorecards and measure the impact against customer outcome, employee feedback and employee productivity. If the change has the desired positive impact, Westpac intends to roll it out to its regional brands (St George, Bank SA, Bank of Melbourne) most likely for the second half of FY17.

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<sup>27</sup> As specified in Mr Stephen Sedgwick AO's most recent updated available at <http://retailbankingremreview.com.au/2016/12/15/update-on-review-progress-2/>

Generally, banks are awaiting the release of the findings of Mr Sedgwick's report before taking further steps to alter remuneration structures, acknowledging the potentially significant impact incentive changes may have on staff engagement and broader operational issues.

ANZ Banking Group advised that they are in the process of introducing a new balanced scorecard incentive plan for frontline staff in the retail banking business, increasing the weighting of customer outcome metrics and reducing the weighting of sales targets. However, some of the challenges are highlighted in the following case study.

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***Case Study B: Incentive plans and customer based metrics***

ANZ has conducted a test and learn pilot in one of our Retail Banking districts over the past 15 months to trial a different approach to frontline incentives and measuring performance.

During the trial, staff performance measures and objectives were changed with sales targets removed from incentive plans and replaced with customer-based metrics (noting that ANZ tellers are not sales staff). For example, staff taking part in the trial were assessed on the quantity and quality of conversations with customers about their banking needs (conducted using our internal "A-Z review" tool), net promoter score (an index that measures customer satisfaction), and customer responsiveness to offers.

The trial was well received by customers with feedback showing increased levels of customer satisfaction with their branch experience. There was good staff engagement, for example in conducting an increased number of and better quality A-Z reviews. A number of performance objectives from the pilot have been incorporated into incentive plans for frontline staff for the FY17 financial year, including quantity and quality of A-Z Reviews, and increasing the relative weighting of customer objectives.

However, overall sales numbers declined (across deposit products, home loans, wealth management products, and business products) compared to the same period prior to the trial. The district also performed worse on sales than the average across the entire Australian branch network.

The trial highlights the challenge of tracking and coaching performance for frontline staff in the absence of sales results. This was something that our staff found frustrating as the loop was never closed for them in terms of whether they had helped the customer. Data on customer feedback and processes are available, but customer outcomes are unclear. The overriding conclusion for ANZ is that incentive plans including whole of role performance through a balanced scorecard approach are likely to be optimal. This approach gives weight to customer outcomes and staff financial performance.

In addition to the pilot program, ANZ is introducing a new balanced scorecard incentive plan for frontline sales staff in our Retail Banking business. This builds on learnings from the pilot and increases the weighting of customer metrics and reduces the weighting of sales targets. This new incentive plan is being rolled out over the next few months.

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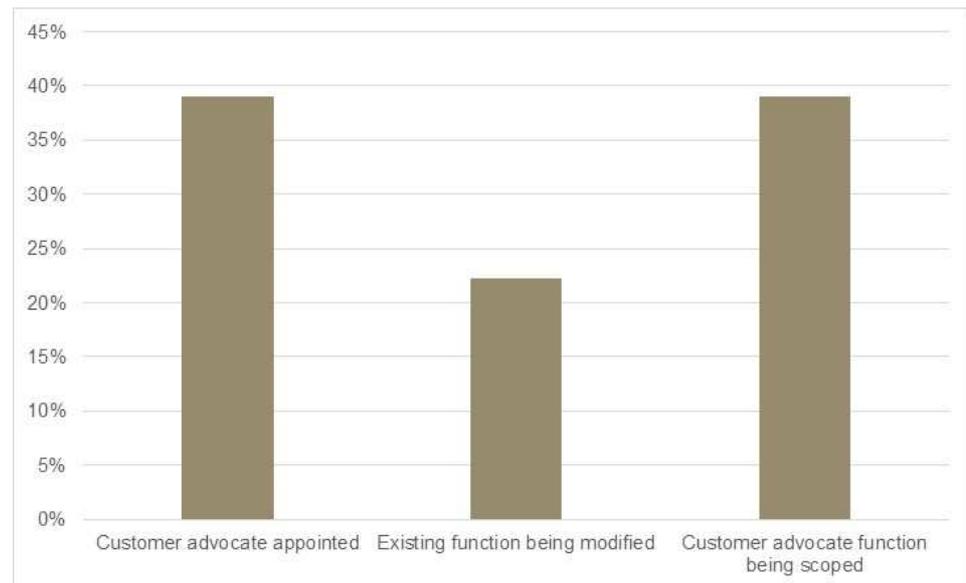
Looking forward for 2017, participant banks are to review their individual policies on incentives and remuneration in light of Mr Sedgwick's review. This review work by each bank and consequent development and publication of their overarching principles to ensure remuneration and incentives are aligned to good customer outcomes and sound banking practices are due to be completed by December 2017.

This measure continues to be monitored closely given the complexity of the changes required, although the progress made by some banks in piloting revised remuneration and incentive structures for not only retail banking staff, but also senior executives, is encouraging and a tangible demonstration of a commitment to improve on current practices.

## *Initiative 2: Making it easier for customers when things go wrong*

The centre-piece of this initiative is for the banks to establish customer advocate positions. This is progressing well, with all of the major banks and three smaller banks advising of the implementation of customer advocate functions in line with the Guiding Principles published in September 2016. The remaining participant banks are progressing this initiative, either by establishing a new function or modifying an existing function.<sup>28</sup>

**Figure 3: Implementation of customer advocate function**



As indicated previously, one issue which has arisen is the situation of the smaller banks where the number of customer issues is so low that it is not feasible to have a dedicated customer advocate. This is still to be resolved, but is becoming more pressing given the industry plan to advance the implementation timetable.<sup>29</sup> In respect of those banks that have established a customer advocate function, it has been reported that customers have started to make use of this service. This is encouraging in these early days, especially given that banks have plans to publicise further the existence of their customer advocate and report publicly on the customer advocate function.

In addition to the specific measures outlined in the implementation plan for Initiative 2, some banks are implementing further measures to enhance existing complaints handling processes, or address some root causes of issues before they arise. For instance, in Case Study C below, Commonwealth Bank of Australia has reported introducing processes to identify customers that may require a more tailored approach in its delivery of services, particularly where those customers may be in financial distress.

<sup>28</sup> A small number of institutions are adopting the customer advocate on a whole-of-group basis rather than being limited to the bank subsidiary within their group

<sup>29</sup> Refer to Section 2.2

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### ***Case Study C: Proactive identification of special needs customers***

CBA is establishing a process to proactively identify when customers may be in vulnerable circumstances to help the bank tailor processes based on their needs.

Large businesses face a considerable challenge in identifying people who need additional support. People are often uncomfortable about self-identifying as being in difficulty – particularly to their bank. This means that there is a considerable reliance on staff recognising potential vulnerability on an individual customer basis.

CBA's Customer Advocate team has developed a new approach. The bank believes it is best to identify in advance those customers whose circumstances may need special attention, rather than relying on customers to tell the bank themselves.

CBA has developed an approach that draws on the information it already holds about customers to look for indicators of possible financial or other disadvantage. This allows the bank to engage with those customers who are in challenging circumstances with the level of care and support they need. CBA are initially focusing on identifying where particular groups of customers in potentially vulnerable circumstances are represented in the complaints process, understanding the reasons for any under/over representation and developing solutions to address the root cause of these issues.

Customers will benefit from the safety net that this approach provides as it will ultimately allow CBA to identify multiple areas across the organisation where those customers need specialised assistance, either in the processes they go through or the outcomes they receive.

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Further, National Australia Bank has provided an example of its 'Voice of the Customer' retrospective review process, the details of which are provided in Case Study D below.

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### ***Case Study D: Review of customer remediation outcomes***

NAB has established the Voice of the Customer (VOC) review to allow the bank to improve its own processes and make things easier for the customer going forward. This is a retrospective review, undertaken on resolved complaints, specifically to consider the customer perspective as part of the root cause analysis.

The purpose of the VOC retrospective review is to:

- Provide an independent voice for NAB retail and small business customers, with a specific focus on advocating for the right customer outcomes in respect of reviews, complaints and systemic remediation arising out of NAB's business.
- Advocate for customers in the continuous improvement of NAB complaint resolution processes, systemic remediation and engendering a customer-centric culture with respect to reviews, complaints or remediation.
- Challenge NAB to live its values to advance customer interests in areas such as reviews or complaints processes.

The VOC pilot commenced on 31 October 2016 and concluded on 2 December 2016 (4 week cycle). The aim of the pilot was to test approach, methodology and sampling to ensure the true voice of the customer was captured. The pilot was based on a random selection of 31 closed internal dispute resolution complaints recorded in the complaints system (pilot sample represents 5 main product/services complaint type and apportioned based on their representation of September's total complaint volumes).

The VOC identified a number of key internal themes primarily relating to process and communications and is working to improve these processes in order to minimise future customer issues.

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In addition to the establishment of a customer advocate function, Initiative 2 included a number of other measures to make it easier for customers when things go wrong. On 15 September 2016, ASIC released Regulatory Guide 256: *Client review and remediation conducted by advice licensees* (RG 256). The regulatory guide sets out guidance for review and remediation activities for retail clients who have suffered loss or detriment as a result of misconduct or other compliance

failures by advisers in giving personal financial advice.<sup>30</sup> Those banks that provide personal advice have indicated that they have now adopted the principles of RG 256, or are in the process of revising their remediation policies to align to the regulatory guide.

In respect of the establishment of a last resort compensation scheme, a range of participant banks are actively contributing to the Ramsay Review, have made submissions and appeared before the Carnell Inquiry, and are working with FOS as part of its project on a last resort compensation scheme. Outside of providing submissions and other input in these reviews, the banks are awaiting the outcomes and further guidance before progressing any specific measures relating to a last resort compensation scheme or broadening of the external dispute resolution framework.

### ***Initiative 3: Reaffirming support for employees who 'blow the whistle' on inappropriate conduct***

The publication of the ABA Guiding Principles – Improving Protections for Whistleblowers on 21 December 2016 has enabled participant banks to begin analysing their existing policies relative to these Guiding Principles to assess the extent of changes required. The banks have reported that this work is now under way.<sup>31</sup>

In their responses to enable the preparation this report, some participant banks identified that there will need to be careful implementation of whistleblower principles. For instance, steps will need to be undertaken to ensure that staff become sufficiently aware of the revised approach to whistleblowing, particularly given that there may be some negative perceptions about whistleblowing by employees and hence a reluctance to embrace the full intent of the policies.

In accordance with the implementation plan, participant banks are scheduled to have implemented the ABA's Guiding Principles on whistleblowers by 30 June 2017. However the major banks have committed to implementing the Guiding Principles by 31 March 2017, ahead of the implementation plan timetable. In respect of the other participant banks, based on their submissions, the measures under this initiative will be completed by 30 June 2017.

### ***Initiative 4: Removing individuals from the industry for poor conduct***

Some participant banks continue to express concern about the legal risks associated with participation in an industry register which aims to identify individuals who have breached the relevant law, codes of conduct, standards or policies. This is the stipulated measure for this initiative.

It is believed by the participant banks that legislative or regulatory support is likely for any such industry register, as noted in Chapter 2, and the introduction of this external dependency to the effective establishment of the industry register might delay its successful completion.

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<sup>30</sup> As defined by Section 766B(3) of the *Corporations Act 2001*

<sup>31</sup> A small number of institutions are assessing the whistleblowing principles on a whole-of-group basis rather than being limited to the bank subsidiary within their group

Therefore, the participant banks are continuing to work with the ABA's Industry Register Working Group to explore options to mitigate or eliminate some of the legal risks in developing an industry register, as well as advancing the design principles through drafting the new Conduct Background Check Protocol.<sup>32</sup>

### ***Initiative 5: Strengthening the commitment to customers in the Code of Banking Practice***

Following their extensive participation and contribution to the review of the Code of Banking Practice, participant banks are now awaiting the findings of the review. As noted in Chapter 2, the publication of these findings have been delayed by a month. A number of the participant banks have concerns about whether there will now be sufficient time to implement the required changes to the Code over the course of 2017, but have equally noted that this risk cannot be properly assessed until the findings of the review are published.

Participant banks have continued to be actively involved in the ABA's Code Review Working Group, and a number of banks have indicated that they have engaged their internal stakeholders to ensure they are aware of the focus of the review, including potential implications.

Of the 21 participating banks, six banks<sup>33</sup> are not signatories to the current Code of Banking Practice. As part of the participating banks' commitment to review the findings of the independent review, and so strengthen their commitment to customers, it would be desirable for the non-signatories to reassess their position in respect to adoption of the Code which, following its revision, can be expected to reflect a contemporary industry code for banking practice.

### ***Initiative 6: Supporting ASIC as a strong regulator***

The two measures comprising this initiative involved the industry working with government and ASIC to: implement a 'user pays' industry funding model; and enhance the current breach reporting framework.

A number of the participant banks have made submissions to Treasury's consultation on the ASIC industry funding model, both individually and by working with the ABA on its industry-level submission. Individual banks have also participated in roundtable consultations hosted by Treasury. This is in addition to their participation in the ABA's Industry Funding Model Working Group. Submissions to this consultation process closed on 16 December 2016. As noted in Chapter 2, it is anticipated that forecast costs for the banking and financial services industry will be published mid-year, with the necessary legislation and regulations in place thereafter. It is apparent from bank responses that while the banks are understanding of the rationale for the ASIC industry funding model, they are mindful of the need for the final model to be both efficient and effective.

In accordance with the implementation plan, banks were scheduled to complete changes to systems and practices to support changes to the breach reporting requirements. However given the delays in the consultation processes referred to in Chapter 2, banks have chosen to delay that internal work and consequently have

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<sup>32</sup> Refer to Section 2.2

<sup>33</sup> ABA member banks which offer retail products and services that are not subscribing banks are Bank Australia, Defence Bank, Macquarie Bank, ME Bank, Mystate and Qudos. It should be noted that a number of these member banks are recent ABA members and formerly credit unions. The Community Owned Banking Association also has a code.

not reported any substantial changes to systems and practices at this time. The participant banks have continued to contribute to the ABA's Breach Reporting Working Group which has settled its industry position ahead of formal consultation as noted in Chapter 2. A range of participant banks have indicated that they will also separately contribute to Treasury consultations as part of the ASIC Enforcement Review.

While many of the participant banks have indicated they are taking no further action at this time, given the stage of the Treasury consultation process, one participant bank has advised it has sought to enhance its policy on managing its regulatory relationship, focusing on: active and early engagement with the regulators; understanding the regulators structure, priorities and environment in order to better anticipate regulatory expectations; simplifying regulator coordination; and specifying the appropriate level of senior executive oversight, among other principles.

The ABA has advised that it is apparent that the introduction of the ASIC industry funding model and the review of breach reporting will need to be done in accordance with processes implemented by government, and therefore the original schedule for delivering this initiative will not be met and so needs to be adjusted. This will be considered as further details are made available to the industry and captured in Report 4.

### **3.3 Concluding remarks**

It is encouraging to observe that a number of banks have made early moves to implement measures ahead of the finalisation of industry positions. This demonstrates a clear commitment by the industry and individual banks to improve customer outcomes and build public trust and confidence in banks.

Following extensive consultation and information submissions, particularly to the independent reviews of product sales commissions and product based payments, and the Code of Banking Practice, the banks are awaiting the final reports to settle industry positions. Therefore the coming 12 months is expected to see key policy changes being made to implement and embed new approaches against all six initiatives, including reporting against performance indicators to better inform the wider community of the impact of the industry's package of initiatives. In their implementation of individual measures, clarity in the banks' service commitment to customers, in the light of the initiatives, will need to be reflected in bank policies, training and behaviours at all levels, if the overall objectives of the package of initiatives is to be successfully achieved.

That said, the matters that the banks are working through are among some of the most difficult matters to deal with in retail banking. It must be acknowledged that as banks pilot their measures, some may not be as effective as originally anticipated. This should not discourage refinements in approaches, or new policies or measures, that ultimately are designed to better protect consumer interests, increase transparency accountability, and build trust and confidence in the industry. Effective stakeholder engagement and communications will be key to the industry and individual banks bringing customers and the broader community with them on this journey.

The next quarterly report (Report 4) is due to be delivered by 21 April 2017, which will mark 12 months since the industry announcement of its package of initiatives.

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# Appendix A Implementation plan as at 20 January 2017

Initiative	Objective	Measures / Implementation Steps	Implementation Phases <sup>(1)</sup>			Summary Deliverable <sup>(1)</sup>	Milestone Step <sup>(1)</sup>	Primary Responsibility <sup>(2)</sup>
			Planning	Agreement of principles	Complete implementation			
1 Reviewing product sales commissions and product based payments	Strengthen alignment of remuneration and incentives and customer outcomes	1.1 Immediately establish an independent review of product sales commissions and product based payments, with a view to removing or changing them where they could lead to poor customer outcomes <sup>(3)</sup>	Jul-16	Mar-17	Mar-17	Independent review report on remuneration (*Timing contingent on ASIC review on mortgage broking)	a) Establishment of independent review	ABA
							b) Assessment of information gathered and submissions received	Reviewer
							c) Preparation of draft report and engagement with stakeholders	Reviewer
							d) Publication of final report	Reviewer
		1.2 Each bank commits to ensure it has overarching principles on remuneration and incentives to support good customer outcomes and sound banking practices	Apr-17	Aug-17	Dec-17	Individual bank policies on remuneration and incentives; informed by the independent review (*Changes and communication of changes and how they support good customer outcomes and sound banking practices may require additional time due to potential impact on agreements/contracts and alignment with performance reviews and other workplace-related matters)	a) Analysis of existing remuneration structures and practices and creation of initial framework	Banks
							b) Preparation of draft guiding principles to assist each bank meet the commitment	ABA/Industry
							c) Consultation and stakeholder engagement	ABA/Industry
							d) Finalisation of guiding principles	ABA/Industry
							e) Identification and development of overarching principles by each bank	Banks
1.3 Work with regulators to implement changes and, where necessary, seek regulatory approval and legislative reform	Apr-17	Jun-17	Dec-17	Potential regulatory approvals (egg authorisation, legislative reform) (*Timing contingent on preparation of report by independent reviewer and any regulatory approval processes required as well as legal requirements to be satisfied. Any necessary changes will need to be made across various agreements/ contracts and that may require further time)	a) Identification of responses and actions needed to remove or change product sales commissions and product based payments which could lead to poor customer outcomes	ABA/Industry		
					b) Preparation of any documentation necessary to make any changes (such as submissions or applications for regulatory approvals)	ABA/Industry		
					c) Regulatory approvals (where necessary) provided for banks to be able to make changes	Regulators		
					d) Banks change remuneration structures (where necessary) and communication of how and why these changes have been made	Banks		

**Legend:**



R1 R2 R3  
Reported status

**Status key:**

-  Completed
-  On target
-  On alert for slippage against plan
-  Adjustment required to original plan

Implementation plan as at 20 January 2017

Initiative	Objective	Measures / Implementation Steps	Implementation Phases <sup>(1)</sup>			Summary Deliverable <sup>(1)</sup>	Milestone Step <sup>(1)</sup>	Primary Responsibility <sup>(2)</sup>
			Planning	Agreement of principles	Complete implementation			
2 Making it easier for customers when things go wrong	Ensure retail and small business customers have a voice and problems are resolved more efficiently  Ensure complaints are escalated and responded to within specified timeframes	2.1 Enhance the existing complaints handling processes by establishing a dedicated customer advocate in each bank to ensure retail and small business customers have a voice; and customer complaints directly relating to the bank, and the third parties appointed by the bank, are appropriately escalated and responded to within specified timeframes <sup>(3)</sup>	Jul-16 	Dec-16 <sup>(4)</sup> 	Jun-17 	Industry position on the role of a customer advocate  Appointment of a customer advocate in each bank	a) Assessment of customer advocate function and creation of initial framework b) Preparation of draft guiding principles to assist each bank meet the commitment c) Consultation and stakeholder engagement d) Finalisation of guiding principles e) Implementation of customer advocate function in each bank	ABA/Industry ABA/Industry ABA/Industry ABA/Industry Banks
		2.2 Support a broadening of external dispute resolution (EDR) schemes. Support the government's announcement to conduct a review into EDR, including the Financial Ombudsman Service (FOS) conducting a review of its terms of reference with a view to increasing eligibility thresholds for retail and small business customers	Sep-16 	Dec-16 	Jun-17 	Industry position on operation of preferred EDR system completed for contribution to government review (*Timing of review to be determined by the government; potential impact on Code review)	a) Preparation of industry position on EDR b) Participation in government review of EDR c) Announcement by government (or relevant regulator) of findings of review and recommendations d) Adoption of industry position in new EDR system	ABA/Industry ABA/Industry Government ABA/Industry
		2.3 Work with ASIC to expand its current review of customer remediation programs from personal advice to all financial advice and products	Jul-16 	Jul-16 	Sep-16 	ASIC regulatory guidance on client remediation programs issued (*Timing of regulatory guidance to be determined by ASIC)	a) Revised submission to ASIC on consultation paper on client remediation b) Adoption of industry position in new regulatory guidance c) Implementation of any changes to ensure banks' systems and practices support client remediation programs, including better record keeping	ABA Regulators Banks
		2.4 Evaluate establishment of an industry wide, mandatory last resort compensation scheme covering financial advisers. Support a prospective scheme being introduced where consumers of financial products who receive a FOS determination in their favour would have access to capped compensation where an adviser's professional indemnity insurance is insufficient to meet claims	Sep-16 	Mar-17 	Sep-17 	Industry position and model for last resort compensation scheme settled	a) Identification of possible model for a last resort compensation scheme b) Preparation of industry position on a last resort compensation scheme c) Coordination of engagement and consensus building across stakeholders d) Consensus support for implementation of scheme	ABA/Industry ABA/Industry ABA/Industry ABA

Legend:



R1 R2 R3  
Reported status

Status key:

-  Completed
-  On target
-  On alert for slippage against plan
-  Adjustment required to original plan

Initiative	Objective	Measures / Implementation Steps	Implementation Phases <sup>(1)</sup>			Summary Deliverable <sup>(1)</sup>	Milestone Step <sup>(1)</sup>	Primary Responsibility <sup>(2)</sup>		
			Planning	Agreement of principles	Complete implementation					
3	Reaffirming our support for employees who 'blow the whistle' on inappropriate conduct	Promote highest standards of whistle blower protections and ensure robust and trusted framework for whistleblowing	3.1	Ensure the highest standards of whistleblower protections by ensuring there is a robust and trusted framework for escalating concerns. Standardise the protection of whistle-blowers across banks, including independent support and protection against financial disadvantage.	Jul-16	Dec-16	Jun-17	e) Preparation of consensus submission to the Government f) Possible introduction of legislation to implement a scheme	ABA Government	
								Industry position on whistleblower protections Implementation of whistleblower framework aligned with industry principles in each bank	a) Assessment of whistleblowing policies and practices and creation of initial framework b) Preparation of draft guiding principles to assist each bank meet the commitment c) Consultation and stakeholder engagement d) Publication of guiding principles e) Bank implementation of highest standard of whistleblowing policies	ABA/Industry ABA/Industry ABA/Industry ABA Banks
4	Removing individuals from the industry for poor conduct	Demonstrate banks' commitment to improve practice and implement an industry register to identify poor conduct across all bank employees, including customer facing and non-customer facing roles, and promote good conduct and ethical behaviour. <sup>(3)</sup>	4.1	Implement an industry register or mechanism to identify individuals who have breached the relevant law, codes of conduct, standards or policies, so that employers can make their own informed recruitment decisions. <sup>(3)</sup>	Sep-16	Jun-17	Dec-17	Completion of position paper on an industry register Industry register established (*Contingent on model designed and whether legislative reform or regulatory change is required)	a) Identification of possible model for industry register b) Preparation of industry position c) Coordination of engagement and consensus building across stakeholders d) Consensus support for implementation of register (or alternative) e) Identification of design parameters of solution f) Preparation of supportive documentation for implementation g) Build solution h) Implementation of industry register (or alternative)	ABA/Industry ABA/Industry ABA/Industry ABA ABA/Industry ABA/Industry IT/Consultant ABA

**Legend:**



R1 R2 R3  
Reported status

**Status key:**

- Completed
- On target
- On alert for slippage against plan
- Adjustment required to original plan

Implementation plan as at 20 January 2017

Initiative	Objective	Measures / Implementation Steps	Implementation Phases <sup>(1)</sup>			Summary Deliverable <sup>(1)</sup>	Milestone Step <sup>(1)</sup>	Primary Responsibility <sup>(2)</sup>
			Planning	Agreement of principles	Complete implementation			
5 Strengthening our commitment to customers in the Code of Banking Practice	Ensure the Code of Banking Practice adequately covers expected standards for banks and their relationship with customers, including standards for engagement between both parties	5.1 Complete a review of the Code of Banking Practice by the end of the year.	Jul-16 	Dec-16 	Dec-16 	Independent review report on the Code of Banking Practice	a) Establishment of independent review b) Assessment of information gathered and submissions received c) Preparation of draft report and engagement with stakeholders d) Publication of final report	ABA Reviewer Reviewer Reviewer
		5.2 Work with banks to implement changes to improve the operation of the Code of Banking Practice within their individual organisations	Agree to timeframe once recommendations and transitional periods are better understood			New Code of Banking Practice (*Contingent on EDR review by government; transitional period and subsequent implementation of changes dependent on the extent of the changes)	a) Identification of responses and actions needed to improve the operation and performance of the Code b) Preparation of any changes to the Code and associated materials c) Publication of the new Code d) Banks make changes to reflect the standards contained in the new Code	ABA/Industry ABA/Industry ABA Banks
6 Supporting ASIC as a strong regulator	Demonstrate banks' commitment to a well-regulated banking and financial services industry	6.1 Work with the Government and ASIC to implement a 'user pays' industry funding model to enhance the ability for ASIC to investigate matters brought to its attention	Aug-16 	Oct-16 <sup>(5)</sup> 	Jun-17 	Industry agreement on funding model (*Implementation will be subject to consultation with an agreement by government)	a) Participation in consultation on users pays funding model b) Consideration of industry position in new model c) Implementation of an industry funding model which is accountable, transparent and encourages better and more efficient regulatory activities	ABA/Industry ABA/Industry Government
		6.2 Work with ASIC to enhance the current breach reporting framework	Aug-16 	Oct-16 <sup>(5)</sup> 	Dec-16 	Industry position on breach reporting regime completed for contribution to ASIC consultation (*Timing of review to be determined by government)	a) Preparation of industry position on breach reporting regime b) Participation in Government/ASIC review of breach reporting c) Adoption of industry position in revised regulatory guidance d) Banks implementation of changes to systems and practices to support new breach reporting system	ABA/Industry ABA/Industry Government Banks

Legend:



R2  
R3

Status key:

- > Completed
- > On target
- > On alert for slippage against plan
- > Adjustment required to original plan

Footnotes:

1. Assessment based on advice from the ABA and/or entity/entities with primary responsibility for implementation
2. Success indicators are still being determined - see above Section 2.3
3. The objective/measure have been revised as described in Report 2
4. While this was noted as complete in Report 2, the ABA has advised that it will consider amending guidance to taken into considerations concerns of smaller banks. Refer to Section 2.2
5. In Report 2 it was noted that the 'agreement of principles' phases for these measure had missed the target completion date of October 2016. The 'agreement of principles' phase' has since been completed for both measures now that the ABA has submitted the industry position to the relevant reviews and on this basis these 'agreement of principles' milestones are now marked as completed. However, it is recognised that the ABA may need to make further submissions as the relevant reviews progress their work.

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# Appendix B

## Participant banks

The following member banks of the ABA have confirmed their participation in the package of initiatives:

- AMP Bank<sup>34</sup>
- Arab Bank Australia
- Australia and New Zealand Banking Group
- Bank Australia
- Bank of Queensland
- Bank of Sydney
- Bendigo and Adelaide Bank
- Citigroup Australia
- Commonwealth Bank of Australia
- Defence Bank
- HSBC
- ING Direct
- Macquarie Bank
- ME Bank
- MyState Bank
- National Australia Bank
- Qudos Bank
- Rabobank
- Rural Bank
- Suncorp Group
- Westpac Banking Corporation

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<sup>34</sup> AMP Bank has advised its commitment to the package of initiatives is subject to relevance to the bank and alignment with AMP Group.

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# Appendix C

## Stakeholder consultations undertaken to date

Discussions were held or input was provided by the following individuals and organisations in preparation of this report:

***Banks:***

- AMP Bank
- Arab Bank Australia
- Australia and New Zealand Banking Group
- Bank Australia
- Bank of Queensland
- Bendigo and Adelaide Bank
- Citigroup Australia
- Commonwealth Bank of Australia
- Defence Bank
- HSBC
- ING Direct
- Macquarie Bank
- ME Bank
- MyState Bank
- National Australia Bank
- Qudos Bank
- Rabobank
- Suncorp Group
- Westpac Banking Corporation

***Other stakeholders:***

- Australian Bankers' Association
- Australian Securities and Investments Commission
- Australian Small Business and Family Enterprise Ombudsman
- Choice
- Ernst & Young
- Finance Sector Union
- Financial Counselling Australia
- Financial Ombudsman Service
- Financial Rights Legal Centre
- Legal Aid Queensland
- The Banking and Finance Oath
- The Ethics Centre

***Independent reviewers:***

- Mr Philip Khoury
- Mr Stephen Sedgwick AO

# Appendix D Summary of external reviews

Body	Review title	Consultation close	Findings due	Initiatives potentially impacted					
				1	2	3	4	5	6
House of Representatives Standing Committee on Economics	Review of the Four Major Banks ('Coleman Inquiry')	Feb/Mar 2017	Ongoing	x	x	x	x	x	x
Parliamentary Joint Committee on Corporations and Financial Services	Whistleblower protections in the corporate, public and not-for-profit sectors	Feb 2017	Jun 2017			x			
Senate Economic References Committee	Consumer protection in the banking, insurance and financial sector	Mar 2017	Jun 2017		x				
ASBFEO	Small Business Loans Inquiry ('Carnell Inquiry')	Dec 2016	Jan 2017		x			x	
ASIC	Review of mortgage brokers remuneration structures	Dec 2016	Pending		x				
Treasury	Review of the financial system external dispute resolution framework ('Ramsay Review')	Oct 2016	Mar 2017		x			x	
Treasury	ASIC Enforcement Review								x
Treasury	ASIC Industry Funding Model								x
Treasury	Consultation paper on tax and corporate whistleblowing	Feb 2017	Ongoing			x			

# Appendix E

## Glossary and abbreviations

Term	Definition
ABA	Australian Bankers' Association
APRA	Australian Prudential Regulation Authority
ASBFEO	Australian Small Business and Family Enterprise Ombudsman
ASIC	Australian Securities and Investments Commission
Banking industry	Banks and banking industry associations
Banking system	Regulators, industry bodies, banks, laws and regulations
CALC	Consumer Action Law Centre
Carnell Inquiry	Small Business Loans Inquiry being undertaken by the ASBFEO, Ms Kate Carnell AO, into the laws and practices governing financial lending to small business
COSBOA	Council of Small Business of Australia
EDR	External Dispute Resolution
FOS	Financial Ombudsman Service
FSU	Finance Sector Union
Implementation plan	Detailed program of work, including provisional timetables for each phase of the project, planned to address each initiative
ISWG	Industry Strategy Working Group. A committee of senior bank representatives convened by the ABA to oversee implementation of the package of initiatives
Major banks	ANZ, CBA, NAB and Westpac
Package of initiatives	Six programs of work announced by the ABA on 21 April 2016
Measures	Actions specified to achieve the objectives of ABA's package of initiatives
Milestones	Interim deliverables required to be achieved in order to implement each measure
Performance indicators	Key performance indicators to assess the effectiveness of measures in meeting the objectives of the initiatives. Referred to as Success Indicators (Outcome Indicators) in Report 1 and Report 2.
Ramsay Review	Treasury's 'Review of the financial system external dispute resolution framework'

