

Independent governance expert report

Australian banking industry: Package of initiatives

Report 2

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This report was prepared for the Australian Bankers' Association and its members in accordance with the terms of engagement dated 19 May 2016. It should not be used for any other purpose. Any reliance placed on this report by a third party is that party's sole responsibility.

Executive summary

This is the second report in my role to review the progress of the Australian banking industry in implementing the package of initiatives, announced on 21 April 2016, to protect consumer interests, increase transparency and accountability, and build trust and confidence in banks.

The initiatives have been developed to address, in a fundamental way, issues that have been adversely affecting the performance and standing of the banking industry.

The six initiatives announced in this package 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;
6. Supporting ASIC as a strong regulator.

The initiatives require action by the industry, represented by the Australian Bankers Association (ABA), and individual banks. The collective action being taken by the industry has a primary focus on settling policy positions to advance the objectives of each of the initiatives. Under the approach adopted, it is then a matter for each participating bank¹ to decide the best way to implement the policy positions agreed by the industry in order to achieve the objectives of the initiatives.

For each of the initiatives, the industry has agreed to implement measures to achieve the nominated objective. Overall, good progress has been made in advancing these various measures in the three months since my last report². For instance:

- There has been further refinement of the objectives and measures for implementation by the industry;
- The independent reviews of product sales commissions and product based commissions (Initiative 1) and the Code of Banking Practice (Initiative 5) have commenced, sought and received submissions, and the respective reviewers have made available progress reports on their websites as well as directly to me;
- The ABA has met a number of milestones, especially in relation to providing key submissions to government (such as the review of external dispute resolution, and client remediation programs), announcing industry positions (such as customer advocate guiding principles), and developing

¹ The ABA has advised that five of its 25 member banks are not included within the scope of this program – see further in Chapter 2

² Issued on 14 July 2016 and available at www.betterbanking.net.au

papers for the purpose of consulting with stakeholders (such as draft whistleblowing guiding principles). In addition, the ABA has published its Reference Checking and Information Sharing Protocol³ to promote improved reference checking during the recruitment of financial advisers;

- The industry has actively engaged with the regulatory community and other key stakeholders on the most effective means of implementing the various measures. This approach is evidenced in the alignment between the regulatory guidance on customer remediation published by the Australian Securities and Investments Commission (ASIC) and the industry's position, as well as the customer advocate guiding principles published by the ABA.

As expected, there has been some adjustment to milestones relative to the provisional implementation plan published in my first report. Some milestones have been completed ahead of schedule and there has been slippage on some others. For instance, good progress has been made to date on measures relating to ASIC's review of client remediation programs and the ABA's assessment of a mandatory last resort compensation scheme; however, there have been some delays in interim steps on the review of product sales commissions and product based payments although additional resources have been allocated to that review to address this. Given the complexity of the issues involved in that review, and the active response to slippage relative to the original plan, this position is manageable at this stage, but requires appropriate monitoring.

The industry has also been working towards identifying success (or outcome) indicators for each of the initiatives, over and above achievement of the nominated milestones for each of the measures. It is important that the industry and individual banks are able to demonstrate progress towards achieving the goals of the various initiatives in a tangible way. This will not be straight-forward and will take time, but is critical if the industry is to demonstrate success in achieving its overarching goals of protecting consumer interests, increasing transparency and accountability, and building trust and confidence in banks.

While this task of identifying success indicators is in the early stages of development, positive steps have been taken to advance the work required in recognition of its importance. Most progress here has been in relation to Initiative 2 (Making it easier for customers when things go wrong) and Initiative 3 (Supporting whistleblowers) where some draft quantitative measures have been proposed. More broadly, the absence of a full set of baseline data to be able to compare industry performance over time will be an issue in the first few years of reporting progress – the extent of which will become clearer as the identification of success indicators progress. The industry has committed to extend and refine this work in the coming months.

It is encouraging to see the steps being taken by the industry within the first six months of the planned 18 month period for the development of the various measures⁴. Just as encouraging has been the initiative shown by some banks to take early steps to adopt industry positions, in some cases in advance of the development of the industry policies, to address the industry's goals. This demonstrates in a very tangible way a commitment to improve performance, consistent with the industry statement while also reminding us that implementation of these initiatives is in part being seen as a legitimate area of

³ Available at <http://www.bankers.asn.au/financial-advice>

⁴ All 20 participating banks provided information to this review on work being undertaken to achieving the industry commitments

competitive positioning by the banks. Significantly, the steps being taken by individual banks will inform the collective industry position.

It is apparent from the consultations undertaken during the course of the review that there is a high level of support among banks for the industry's initiatives. Chief executives have advised, in their own words, that they are focussed on doing the right thing. They have observed that progress has been made, but recognise there is more to be done to make sure the initiatives are delivered and implemented across their banks so there is meaningful behavioural change.

While most ABA member banks have committed to the package of reforms, it will be important going forward for the ABA to be clear about member banks that are not participating in the package of initiatives as the Industry Statement of 21 April 2016 did not refer to any exceptions. Further, while participation in the various initiatives is ultimately a decision for each bank, it nonetheless could be expected that some of the customers of those banks not participating could benefit from the banks adopting, or adapting, the industry initiatives. It may therefore also be that as industry positions are settled, some of these banks would look to adopt the initiatives relevant to banks with these operations.

In the current environment, leadership by the chief executives and senior executives within the banks, with strong board support, will be critical to the success of the industry initiatives. Agreement to improved measures and approaches will be an important first step but it is the delivery on these reform measures that will make the difference in the manner services are delivered and customers are treated – it is the outcomes that matter most.

It is apparent that the words of chief executives are being backed with actions. Nevertheless, it will take time to revise banks' existing policies in the light of the position reached by the industry and to embed the new approaches, with the extent of change required being influenced by the current policy settings in individual banks and trade-offs between stakeholder interests. 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 of protecting consumer interests, increasing transparency and accountability, and building trust and confidence in the industry. The clarity by which the industry is able to demonstrate better outcomes over time, will be critical to its success.

The next report of this review is scheduled to be issued by no later than 21 January 2017.

Contents

Executive summary	ii
1 Introduction	1
2 Governance arrangements	4
3 Implementation progress	12
Appendix A Implementation plan as at 15 October 2016	23
Appendix B Stakeholder consultations undertaken to date	27
Appendix C Glossary and abbreviations	28

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 help build public trust in the banking industry and improve customer outcomes⁵. The initiatives, and their associated objectives, are as follows:

Initiative 1: Reviewing product sales commissions.

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 behaviour⁶.

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 announced 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.

⁵ 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>

⁶ This objective has changed since Report 1 – see further in section 2.4.3

Under each initiative 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. Details of further refinements to the objectives of the initiatives and measures, since they were announced, are outlined in Chapter 2.

1.2 Background to this review

In conjunction with the announcement of the package of initiatives directed to building public trust and improving customer outcomes, the ABA appointed an independent governance expert to provide oversight of the implementation of the six initiatives.

The role of the independent governance expert is to report on the progress of the industry in implementing its announced package of initiatives, while at the same time maintaining a focus on the ABA's goals 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 website⁷.

The first Independent Governance Expert Review Report (Report 1), was issued on 14 July 2016 and outlined the nature and timing of the package of initiatives and their associated measures, the role of the independent governance expert and the methodology to be utilised for the review⁸. The first report noted 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.

The first report also noted the need to ensure measures proposed within the six initiatives are integrated with the banks' other responsibilities and business imperatives, and consider existing programs of work being undertaken by the regulators. Finally, the first report recognised that to assess whether sustainable change within the industry over the longer term occurs, a range of success indicators would need to be developed and monitored over time. 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.

This second report into the industry's progress in implementing its package of initiatives is focused on the implementation status of each measure, including perspectives in terms of initial expectations, any matters arising which pose particular challenges to the implementation timeframes, and progress in developing key success indicators to assess whether the package of initiatives is meeting its stated goals. In this context, advice from the bank chief executives on the status of measures taken by their organisations to progress the various initiatives has been sought, along with formal consultations with the ABA and its working groups on their progress. A range of stakeholders groups, including customer advocates, employee representatives and the regulators (ASIC and APRA) have also been consulted during the course of the review. Comments from other interested parties have also been sought via www.betterbanking.net.au.

⁷ Available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/letter-of-engagement>

⁸ Available at www.betterbanking.net.au

As mentioned in my first report, this 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. Information will be gathered from relevant stakeholders on their progress each quarter, and it is expected that, for those measures to be implemented by the banks, the banks' chief executives will provide support to their status. Other substantive evidence may be requested from time to time depending on the nature of the measure. Consistent with the terms of my engagement, where such information is identified by the bank as confidential, it will only be used in an aggregated form to assess progress with implementation. PwC Australia has agreed to support me in the execution of my responsibilities, including to provide expert advice on banking matters.

2 Governance arrangements

2.1 Introduction

The ABA has recognised the importance of sound governance structures to provide assurance that appropriate progress is made in implementing the package of initiatives, and more broadly in meeting the stated objectives of the banking industry to help build public trust and improve customer outcomes. The initial governance arrangements established by the ABA to oversee the implementation of the package of initiatives were outlined in Report 1. Those initial governance arrangements have been refined to reflect developments and experience gained in the past three months. This chapter discusses these refinements to the governance arrangements.

2.2 Governance framework

As noted in the first report, the Industry Strategy Working Group (ISWG), which is the key committee overseeing the industry's implementation of the reform package, comprises senior executives from the banks, each of whom have a direct reporting line to the bank chief executives. As a delegated committee of the ABA Council, the ISWG is responsible for progressing the reforms and reporting on progress to the ABA Council. Over the past three months the focus of the ISWG has shifted from initial planning to working towards agreement of principles and other implementation matters. As a consequence, a number of additional governance arrangements have been established to support the ISWG.

In particular, the Banking Industry Program Coordinators group has been established to ensure co-ordination of efforts across the six initiatives, both at the industry level and within individual banks. Issues being managed include establishment and definitional issues, implementation plans, reporting arrangements, challenges and opportunities, and implementation risks.

The Program Coordinators are responsible for ensuring resources are coordinated, synergies across the initiatives identified, and industry efforts are streamlined. 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.

The Program Coordinators are scheduled to meet fortnightly, and in turn provide fortnightly updates to the ISWG forecasting implementation plans for the next 10 weeks and identifying any challenges or risks and other factors, whether internal or external. All milestone deliverables are required to be endorsed by the ISWG.

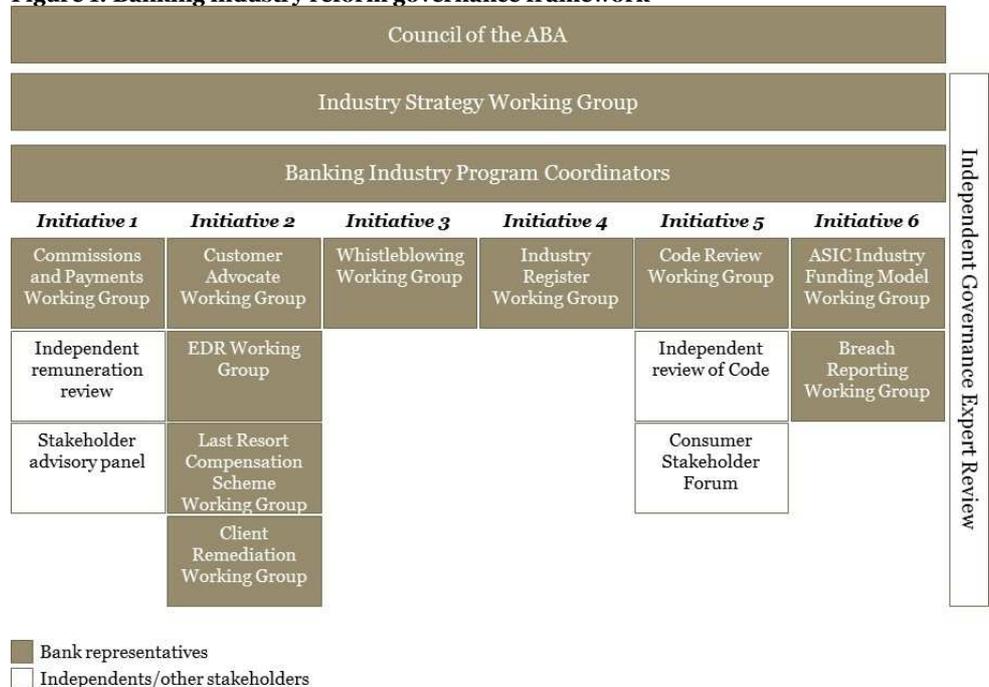
Reporting to the Banking Industry Program Coordinators are working group committees for each of the six initiatives. Detailed implementation plans have been established for each initiative, guided by the overall implementation plan included at Appendix A. It should also be noted here that, following stakeholder consultation, formal terms of reference for the independent reviews of product sales commissions and product based payments (Initiative 1) and the Code of Banking Practice (Initiative 5) have been finalised and published. These terms of reference are discussed further in Chapter 3.

The working groups have also been tasked with developing industry positions and managing technical input. The working groups include 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.

In support of the ISWG, the ABA is also engaging with consumer groups and employee representatives as the above measures are progressed. This includes formal representation on the Stakeholder Advisory Panel established to support the independent review of product sales commissions (Initiative 1) and targeted consultations on relevant matters with the development of industry positions across the initiatives. Additionally, the ABA’s Consumer Stakeholder Forum, a pre-existing committee with ABA and consumer organisation members, is being engaged to support the independent review of the Code of Banking Practice (Initiative 5).

In summary, a suitable governance framework has been put in place to oversight the industry’s commitments to deliver on the six initiatives announced on 21 April 2016. They can be illustrated as follows.

Figure 1: Banking industry reform governance framework



Individual banks are expected to have in place suitable governance arrangements to integrate the industry commitments into their internal project and change programs and operations. The banks have generally advised of measures that have been taken to establish governance arrangements to oversee the industry initiatives with senior executives given responsibility for ensuring contributions to ABA working groups, providing requested information in order to develop industry positions and overseeing the implementation of agreed outcomes.

Clarity around the governance framework is important. It is also pleasing to see that the banking industry has implemented additional structures and resources to help develop and implement the reform package. This was an implementation risk and challenge identified in Report 1.

2.3 Clarity of bank participation

When Report 1 was published there was some uncertainty about which banks were to be involved in the package of initiatives.

The ABA has 25 member banks including the major banks, regional banks, mutual banks and investment banks providing banking and financial products and services to retail consumers and wholesale clients.

The ABA has advised that the banking industry reform package was designed to improve consumer protections and raise banking standards for those banks with retail customers. Twenty ABA member banks have confirmed their active involvement in the reform package, with the ABA advising that five member banks are not participating in the reform package, namely: Bank of America Merrill Lynch, Bank of China, Bank of Sydney, BNP Paribas and United Overseas Bank.

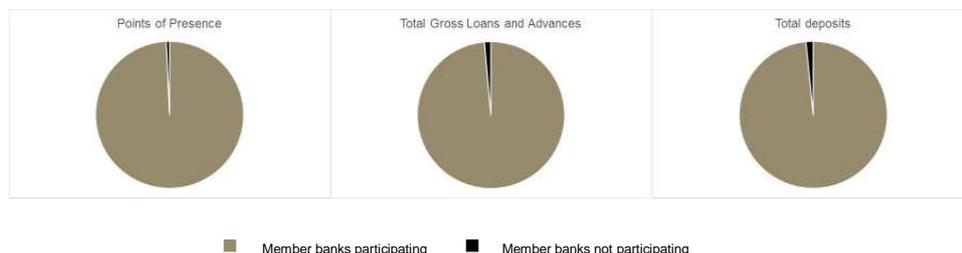
The ABA has explained this in the following terms:

“These banks are wholesale and specialist banks which provide products, services and solutions mostly to institutional investors, other financial institutions, and high net worth individual or private clients. It is appropriate for these member banks to be outside the program given the overall objective of protection of consumers.”

While most retail banks have committed to the package of reforms, it will be important going forward for the ABA to be clear about member banks that are not participating in the package of initiatives as the Industry Statement of 21 April 2016 did not refer to any exceptions. Further, while participation in the various initiatives is ultimately a decision for each bank, it nonetheless could be expected that some of the customers of those banks not participating could benefit from the banks adopting, or adapting, the industry initiatives. It may therefore also be that as industry positions are settled, some of these banks would look to adopt the initiatives relevant to banks with these operations.

On a range of benchmarks⁹, the member banks participating significantly outweigh those member banks who have not indicated their participation at this point in time.

Figure 2: ABA member participation



Additionally, the fact that this is a commitment made by the banking industry means there will be some providers of retail banking products not covered by the reform package, including credit unions and building societies¹⁰.

⁹ Data on points of presence, loans and advances and deposits for member banks sourced from the July 2016 APRA statistical tables.

¹⁰ Credit unions and building societies are not members of the ABA.

2.4 Amendments to initiative objective and measures

In Report 1 it was observed, through early consultations with a number of stakeholders, that further clarity was required around some of the initiatives and the associated measures.

Reflecting this, the ABA has advised that some of the objectives and measures contained within the provisional implementation plan presented in Report 1 have been amended. This section documents each of those changes, and the reasons for the changes. The implementation plan at Appendix A has been updated with these changes.

2.4.1 Initiative 1: Reviewing product sales commissions

The change to this initiative is to remove duplication between the objective and measure 1.1 where the words “Strengthen the alignment of remuneration and incentives and customer outcomes” appeared in both. Those words have now been deleted from measure 1.1.

Original statement	Revised statement
<i>Objective</i>	
Strengthen the alignment of remuneration and incentives and customer outcomes	Strengthen the alignment of remuneration and incentives and customer outcomes
<i>Measure</i>	
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; and strengthen the alignment of remuneration and incentives and customer outcomes	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

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

The change to this initiative by the ABA is to change the phrase “independent customer advocate” to “dedicated customer advocate” in measure 2.1.

The ABA has explained that this change reflects feedback to the ABA from ASIC, the Financial Ombudsman Service (FOS), and consumer organisations during targeted consultation on the development of guiding principles on the customer advocate. ASIC advised that from a regulatory perspective the term “independent” has a specific meaning in the context of external dispute resolution, including that an independent advocate must be a legal entity in its own right with separate funding. This requirement was taken into consideration in the development of industry level action and informed the publication of the ABA’s guiding principles on the customer advocate¹¹.

I am advised that when this initiative was initially framed, the ABA and the banks did not intend the customer advocate to be independent in the way that ASIC has

¹¹ Announced in the ABA media release on 30 September 2016 and available at <http://www.bankers.asn.au/media-releases/media-release-2016/new-voice-for-customers-in-complaints-with-banks>

explained the use of this term. I am also advised that a customer advocate was intended to be established in a way that separated the function from the businesses and complaints handling function, but still accountable to the senior executives of the bank; and it was also not expected to replace or replicate the role of external dispute resolution or consumer advocates, such as community legal centres or financial counselling services.

It is likely that banks will establish the customer advocate in different ways and for this reason they will need to demonstrate clearly how the structure, roles and responsibilities will assist their customers (as outlined in the guiding principles on the customer advocate).

In this sense this change does not unduly detract from the overall intent of the initiative. Nonetheless, more considered initial planning and/or advice may have averted the need for this change.

Original statement	Revised statement
<i>Objective</i>	
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.	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.
<i>Measure 2.1</i>	
Enhance the existing complaints handling process by establishing an independent 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.	Enhance the existing complaints handling process 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.

2.4.3 Initiative 4: Removing individuals from the industry for poor conduct

In Report 1, it was noted that this initiative “raises a number of complex legal matters that will need to be resolved” and that a working group had been established to consider the various legal and operational matters.

This work has progressed, to the point where there has been substantial change to the description of both the objective and the measure. The ABA has advised these changes reflect “feedback from stakeholders and legal advice” and that “it became clear that this initiative was about ultimately improving practices and promoting good conduct and ethical behaviour, not just about dealing with ‘bad apples’. It was about improving information available about the conduct history of bank employees and the recruitment decisions of banks”.

The amendments to the objective and measure are:

Original statement	Revised statement
Objective	
Demonstrate banks' commitment to improve practice to deal with 'bad apples' and promote good conduct and ethical behaviour	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
Measure	
Implement an industry register which would extend existing identification of rogue advisers to any bank employees, including customer facing and non-customer facing roles.	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.

These amendments retain the original intent of Initiative 4 while taking a more informed view about the legal and operational issues, which have been accepted on all sides as very complex. The key issue going forward will be to ensure that sufficient emphasis is placed by the ABA and the banks on specific actions to “promote good conduct and ethical behaviour” over and above the industry register or mechanism.

I note that the objective of promoting good conduct and ethical behaviour remains a common denominator of both iterations. In this regard, it is pleasing to see that the industry is working to communicate targeted changes in industry-wide behaviour in consequence of each initiative, as a guide among the banks themselves as to what success would look.

2.5 Key success indicators

In order to assess the effectiveness of the package of initiatives in meeting their objectives, the banks, in conjunction with the ABA are developing both qualitative and quantitative indicators of success in terms of outcomes achieved.

While a number of potential indicators are already in place within each bank, it is important that industry-wide indicators are developed to guide the banks in determining whether the measures being implemented are meeting their objectives.

To date, progress has been made in specifying the key indicators for this purpose, particularly in respect of Initiative 2 and Initiative 3; the ABA plans to test these indicators and metrics with stakeholders. The draft success (or outcome) indicators for these initiatives are as follows:

Initiative 2
Customer advocate success indicators
<ul style="list-style-type: none"> - Complaints/ issues that are referred to the customer advocate are resolved within specified timeframes - Number of cases examined by the customer advocate, and results - Reduction in escalation rates - Uphold rates for external complaints - Number of complaints about the customer advocate role or function - Staff training and awareness of the customer advocate - Communication (e.g. high level, public reporting).

Initiative 2 (continued)

Client remediation success indicators

- Scope of the program is defined correctly (including customers affected, timeframe applicable)
 - Quality of the program (e.g. program operates efficiently, honestly and fairly, including expediency of resolving problem)
 - Customer communications during the program (e.g. effective, timely and targeted)
 - Program incorporates IDR and EDR processes, as needed
 - Number of complaints about the program
 - Staff training
 - Communication (e.g. high level, public reporting).
-

External dispute resolution success indicators

- Level of adherence to service agreements (including timeframes)
 - Number of complaints referred to EDR
 - Efficiency (e.g. expediency in resolving disputes)
 - Staff training
 - Customer communications (e.g. effective, timely and targeted).
-

Initiative 3

Whistleblowing success indicators

- Number/nature of reports (e.g. split of where disclosures are reported from by bank's division and geographical location where relevant)
 - Increase/ decrease of reports (pattern, trend, aggregate)
 - Significance of reports
 - Timeliness of investigations
 - Types of actions taken as a result of reports
 - Staff training and awareness/ trust of whistleblower program and policy
 - Communication (e.g. high level, public reporting).
-

It will be beneficial if further consideration was given to how best to incorporate appropriate external perspectives into these indicators and metrics so as to get a more rounded view of the outcomes of these initiatives. This may be achieved through regular or periodic surveys. External stakeholders should also be consulted in due course.

For the remaining initiatives, the development of success indicators continues to be progressed along with the development of industry positions across the initiatives. The industry is also seeking to engage external corporate governance reporting consultants to assist in the further development of success indicators that could be incorporated into the public reports of banks to create further transparency and accountability to stakeholders ongoing. This is a positive step which recognises the importance of embedding the reform package into banks' operations on an ongoing basis and the longer term need to see behavioural change.

Further details on the development of key success indicators will be the subject of Report 3.

2.6 Concluding remarks

Progress on governance arrangements over the past three months has been positive and reflects the importance and commitment being placed on the reform package by the Australian banking industry.

The overall progress on governance arrangements needs to be set in the context of a package of initiatives which is intended to improve the performance and standing of the banking industry. Such industry-wide change is never easy in any industry, but is particularly not so in an industry like banking where competitive comparisons between the banks are made on an ongoing and very public basis. This is a point which has been made (in different ways) by a number of chief executives consulted during the review to obtain context to the progress made to date on governance arrangements. It is also a reminder that the emphasis on

governance will need to be sustained through the entire program if the objectives are to be achieved.

Taken individually, the changes to the objective for Initiative 4 (Removing individuals from the industry for poor conduct) and to measures 1.1, 2.1 and 4.1 are understandable and are being transparently communicated. The industry appreciates that further change from here as to the objectives and measures would need to be taken only after very careful consideration.

The industry is planning to make further progress on identifying longer-term success (or outcome) indicators, building on the progress in relation to identifying success indicators for Initiative 2 (Making it easier for customers when things go wrong) and Initiative 3 (Supporting whistleblowers). This particular focus is important for the overall success of this package of initiatives by providing an objective basis over time for judging whether the measures undertaken have actually delivered the benefits anticipated for bank customers. This will be one of the most important elements of ensuring that the reform program's ultimate goals of protecting consumer interests, increasing transparency and accountability, and building trust and confidence in banks are achieved.

3 Implementation progress

3.1 Introduction

In order to assess implementation progress in respect of each initiative, formal feedback was requested from the ABA and its member banks on the following matters:

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

All 20 participating member banks responded to this request.

This chapter assesses implementation progress based on that feedback, as well as feedback received from ASIC and the two independent reviewers (Mr Stephen Sedgwick AO and Mr Phil Houry) and other stakeholder conversations.

A progress summary is provided in Appendix A which shows the implementation plan and assesses progress for each implementation phase for each of the measures in the six initiatives. The three implementation phases are Planning; Agreement of principles; and Complete implementation. The summary assessment levels are Completed; On target; On alert for slippage against plan; and Adjustment required to original plan.

3.2 Progress on initiatives

The implementation progress of each initiative is outlined below:

Initiative 1: Reviewing product sales commissions

The objective of this initiative is to strengthen the alignment of remuneration and incentives and customer outcomes.

Based on the ABA's implementation plan, the main activity to be undertaken during the past three months was the commencement of an independent review of product sales commissions and product based payments. Mr Stephen Sedgwick AO was appointed to undertake this review in July 2016, and the review has duly commenced.

The terms of reference have been published¹², identifying four key objectives:

- Build on the Future of Financial Advice (FOFA) reforms by identifying and collating the existing product sales commissions and product based payments that apply in relation to the sale, offer and distribution of identified banking products to retail and small business customers;

¹² Available at <http://www.betterbanking.net.au/wp-content/uploads/Terms-of-reference-Independent-review-on-remuneration-FINAL.pdf>

- Assess whether and how product sales commissions and product based payments in retail banking could lead to poor customer outcomes, including identifying and collating examples as part of building a framework to assess whether the payment could result in poor customer outcomes;
- Identify and test options for strengthening the alignment of remuneration and incentives and customer outcomes by either removing or changing those product sales commissions and product based payments which could lead to poor customer outcomes; and
- Identify options to guide potential responses for banks, including whether regulatory approvals or other actions are needed to enable banks to make any changes or take actions to address the relevant issues.

The terms of reference for this review are focused on retail and small business customers and remuneration structures in retail banking. The independent review includes roles in retail banking, including customer facing and non-customer facing roles as well as third parties involved in the sale, offer and distribution of retail banking products (such as brokers), remuneration structures including monetary and non-monetary, and covers all retail banking products. Retail banking products include basic banking products¹³, general insurance products, and consumer credit insurance.

The independent review specifically builds on the FOFA reforms which introduced a ban on conflicted remuneration across non-retail banking products, including superannuation, life insurance products, shares and other wealth management products. The review will not re-examine this area already addressed by the law.

The independent review will also assist the banks meet their commitment to have overarching principles on remuneration and incentives, which is another measure in the reform package. The independent reviewer has specifically been asked to provide observations and insights from the review to assist the banks 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.

Legal and remuneration experts have been engaged to support the review, and have been heavily involved in the development of information requests prepared to assist the banks provide information and data on rewards and incentives to the independent reviewer. The Stakeholder Advisory Panel has also met.

The independent reviewer has sought submissions or consultations from a large number of organisations, both banks and other stakeholders. This included seeking information about the practices banks follow to provide rewards or incentives to customer facing retail banking staff, including specialist staff. This is a significant data gathering and data analysis task under way. Reflecting public interest in this review, a review website has been established to facilitate public communication of developments, including to seek public comment¹⁴.

Mr Sedgwick has indicated that the ABA and the banks are engaging actively in the review and have confirmed their support for this review. Banks have also signalled their intention to commit to having overarching principles on remuneration and

¹³ As defined by Section 961F *Corporations Act 2001*

¹⁴ Refer to <http://www.retailbankingremreview.com.au>

incentives to support good outcomes and sound banking practices, and generally are awaiting the findings of the independent review.

An ABA submission was made to the independent review and published on 23 September 2016¹⁵.

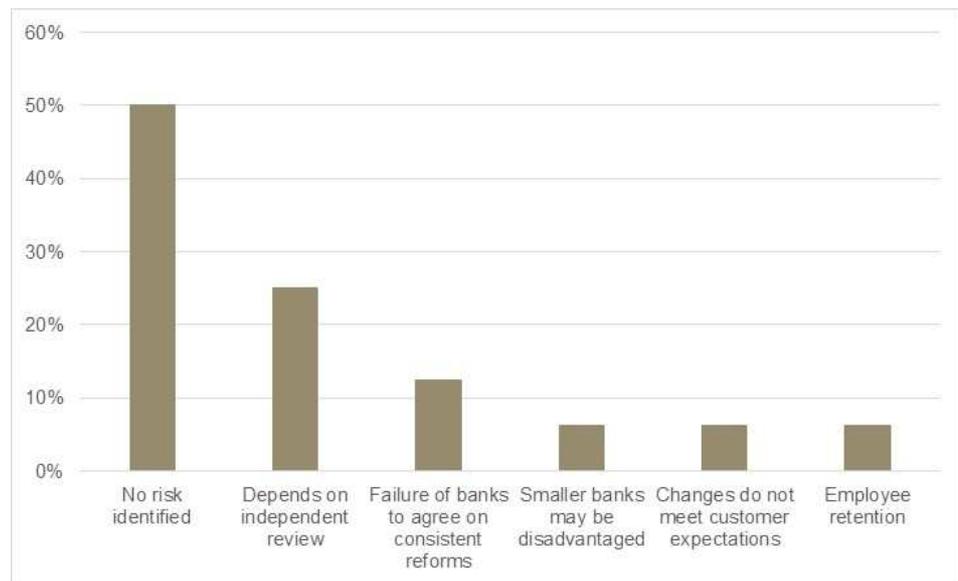
In their reporting to me, banks have advised they have undertaken a range of steps within their own businesses on remuneration and incentives. These include:

- Mobilising relevant internal experts to contribute to the independent review and collate information and data as requested;
- Engaging with key stakeholders across the various channels and businesses that service retail and small business customers to raise awareness of the review and its intent; to generate feedback on alignment between the banks current performance and reward systems with good customer outcomes; and how they may be able to further improve these systems, processes and practices;
- Changing the performance and reward framework to increase the focus on risk management and customer outcomes. For example, the formation of a working group to develop FY17 performance objectives for frontline employees in retail banking channels and identify improvements, including reweighting of objectives to customer outcomes in the balanced scorecard, which underpins performance management systems and the payment of a bonus to employees; and
- Reviewing total reward offering for employees to understand more deeply what motivates them to performance and deliver against the bank's customers-centric strategy.

In terms of the forward outlook, half of the banks did not raise particular implementation risks, while a further quarter indicated that it was not possible to assess the risk outlook ahead of seeing the independent review report on product sales commissions and product based payments.

The remaining banks raised potential implementation risks. These were that the banks cannot agree among themselves; that the potential changes may have a disproportionate adverse impact on the smaller banks; that customer expectations were not met; and that there are adverse impacts on staff retention. The distribution of risks raised is shown in the chart below.

¹⁵ Announced in the ABA media release on 23 September 2016 and available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/banks-will-ensure-staff-pay-structures-put-customer-interests-first>

Figure 3: Implementation risks – Initiative 1

The first key milestone for this initiative in the context of the overall implementation plan is the agreement of remuneration principles in March 2017, following the completion of the independent review report on product sales commissions and product based payments. Data collection requirements have proven more extensive than initially envisaged. Additional resources were put in place once the full data collection requirements became apparent and this is why the delivery date for this milestone has not been revised at this stage. Program Coordinators and the ISWG are closely monitoring developments on this front. The ABA has advised that another factor being closely monitored by the independent reviewer is the ASIC review into the mortgage broking industry, and ensuring alignment.

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

The objectives of this initiative are to ensure retail and small business customers have a voice and that problems are resolved more efficiently, as well as to ensure complaints are escalated and responded to within specified timeframes.

Progress on this initiative has been ahead of schedule, with all planning milestones now completed.

Central to this initiative is the appointment of a customer advocate in each bank. The ABA has defined its guiding principles for the customer advocate and these have now been published¹⁶.

At the time of preparation of this report, three of the major banks already have or have recently announced the appointment of a customer advocate. I am advised the other major bank has appointed its customer advocate and a public announcement is expected to be made in the week of 24 October 2016. In addition a number of smaller banks have indicated that they have established customer

¹⁶ Announced in the ABA media release on 30 September 2016 and available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/new-voice-for-customers-in-complaints-with-banks>

advocate positions, while others are in the process of assessing how to implement this function. The ABA has some confidence that this measure (2.1) will be completed on or ahead of the mid-2017 milestone for implementation by the banks.

A small member bank has indicated, given its scale and the nature of its retail business, such as having only 100 staff across the entire bank, that in implementing a dedicated customer advocate the bank will be looking to allocate this responsibility to an existing senior staff member. I have been advised that as banks work through implementation, it is possible other small member banks will encounter this (or a similar) practical difficulty. In these circumstances, rather than allocating the role of customer advocate to an existing senior staff member, a preferred approach would be to have the customer advocate engaged on a part-time basis by the bank. This would clearly allow for the Guiding Principles to be implemented, particularly in avoiding any perceptions or circumstances that may detract from customers having confidence in the role. Appropriate attention would still need to be paid to ensuring the role has sufficient authority and engagement within the bank to be able to resolve issues expeditiously. This is an issue that would benefit from further ABA consideration and reference in its Guiding Principles.

Similar progress has been made in relation the development of principles in relation to an industry-wide, mandatory last resort compensation scheme covering financial advisers (measure 2.4). The design principles have now been agreed by the ABA, albeit that one member bank holds the view that only AFS licencees that are judged not to be able to meet claims from their own financial resources should fund the scheme. Notwithstanding this bank's position, the ABA has adopted the design principles and this has been done ahead of the planned milestone date of March 2017. I am advised that work will now focus on working through the details with member banks and other interested parties (such as consumer organisations, other financial institutions and their representatives, regulators, FOS and the government).

The banking industry is engaging with the Independent Expert Panel established by the government to review the external dispute resolution (EDR) system. The agreed design principles for a last resort compensation scheme have been included along with the industry position on the EDR system in the ABA submission to the review published on 11 October 2016¹⁷. Finally, ASIC has published Regulatory Guide 256 *Client review and remediation programs conducted by advice licensees* (RG256) providing guidance on client remediation. This has considered and incorporated the submissions by the ABA, in particular the expansion to cover all types of financial advice and financial products contained in RG256. This means that one of the measures (2.3) under this initiative has now been completed at an industry level. I am advised that the next step is for banks to analysis RG256 against their existing compliance systems and practices, and to make adjustments to programs and policies where necessary.

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

The objectives of this initiative are to promote the highest standards of whistleblower protections and ensure a robust and trusted framework for whistleblowing.

¹⁷ Announced in the ABA media release on 11 October 2016 and available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/one-stop-shop-needed-to-simplify-complaints-handling>

Progress on this initiative also has been positive and consistent with implementation plan milestones.

The ABA commissioned an independent report to explore global best practices from the consulting firm Promontory to inform the industry's guiding principles on whistleblower protections.

The report indicated that generally Australian banks' policies benchmark well on a global basis, but that in itself highlighted the challenge in this area of translating good policies into manifestly effective practices. This in turn informed the discussion between the banks on agreeing the guiding principles. The draft guiding principles contain senior leadership responsibilities, coverage of disclosures and range of people, reporting and investigation procedures, support and protection for whistleblowers, and communications and training procedures.

This process was completed in September 2016, and as part of that it was agreed that it would be beneficial to publish the Promontory report¹⁸, along with the draft guiding principles for public consultation. This material was published on 12 October 2016¹⁹. This public consultation was not envisaged in the original implementation plan, and is to be welcomed. The public consultation is due to be completed without impacting or delaying the delivery date for this milestone.

Some banks have already commissioned independent reviews of their whistleblowing frameworks, and implemented changes including the appointment of dedicated senior executives to oversee whistleblowing and the appointment of an independent third party provider to receive whistleblowing calls. One bank has advised that it has been highlighted through this initiative that it needs to extend its whistleblowing policy to include contractors, consultants, suppliers, third party providers, brokers, auditors and former employees. These are encouraging developments.

A number of other developments are relevant - the Senate Economic References Committee is currently undertaking an inquiry into whistleblowing (Scrutiny of Financial Advice inquiry); a Treasury consultation paper is expected; and ASIC is expected to provide additional information on ASIC's Office of the Whistleblower. The ABA has maintained close dialogue with ASIC in order to align its guiding principles as closely as possible to the initiatives being progressed by government.

In short, there has been good progress, and the milestone of completing implementation by June 2017 remains in place but there is due regard for the need to remain on an implementation path which is consistent with the timing of government announcements. The banks have also affirmed their support for the ABA's efforts in this regard.

Initiative 4: Removing individuals from the industry for poor conduct

The objective of this initiative is to 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.

¹⁸ Available at <http://www.betterbanking.net.au/faster-industry-repair/whistle-blowers/>

¹⁹ Announced in the ABA media release on 12 October 2016 and available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/have-your-say-on-improving-banks-whistleblower-protections>

The key measure under this initiative is the implementation of 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.

As noted in the first review report in July, this is one of the more difficult of the initiatives, given the complex legal issues such as privacy and competition law. The individual banks have stressed these risks and uncertainties in their quarterly reporting to us. It is clear that these concerns are forefront in the planning work to date, and in turn the planning for this initiative is subject to a particularly high degree of uncertainty.

Nonetheless, a plan has been completed, in line with the overall timetable. Other initial activities have included identification of a possible model for an industry register and preparation of an industry position.

On 20 September 2016, the ABA published the Reference Checking and Information Sharing Protocol²⁰. This has been created to improve reference checking during the recruitment of financial advisers, and was developed with input gained through targeted consultations with stakeholders. It is expected that the Protocol will be operationalised by March 2017, and is a helpful first step. An important aspect to recognise is that all the financial advice banks have agreed to be a subscribing licensee, covering all their financial advice businesses not just financial advisers working in the bank.

Legal advice has also been commissioned on the structure of an industry register, scope and conditions for being on the register, the legal issues and risks, and recommendations to mitigate those risks. Competition and privacy law considerations continue to be weighed in implementation of an industry register. These considerations are highlighted by the banks in their feedback and submissions to me. The ABA is examining ways to address these matters, including through discussions with ASIC and other interested parties. Further consultation with the industry, regulators and the government will be required on this matter.

The milestone for agreement of the relevant principles to underpin the implementation of this initiative is June 2017. The milestone for implementation of those principles is December 2017. Given the complexities and uncertainties, this remains a challenging timetable.

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

The objective of this initiative is to ensure the Code of Banking Practice adequately covers expected standards for banks and the relationship with customers, including standards for engagement between both parties. Reflecting this, the ABA has committed to completing a review of the Code by the end of 2016.

The independent review of the Code of Banking Practice is under way. The review is being conducted by Mr Phil Khoury and its objectives, as specified in its terms of reference²¹, are to:

- Consider the effectiveness of the Code and identify the relevance and operation of the Code and changes which have occurred in the legal and regulatory

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

²¹ Available at www.cobpreview.cameronralph.com.au/TOR

environment, including self-regulation, and changes anticipated in banking services;

- Understand and collate views about banking practices to ensure the Code continues to set standards for good banking practices building on banks' legal obligations and other relevant industry codes, standards and guidelines and reflecting consumer needs and behaviour and community expectations;
- Make recommendations on how the banking industry can strengthen the operation of the Code and promote informed and effective relationships between banks and their individual and small business customers;
- Give attention to the initiatives contained in the industry announcement on 21 April 2016 and other recent initiatives and the extent to which these commitments should be contained in the Code; and
- Ensure banks and consumers are clear about their rights and responsibilities and that the Code articulates the standards of behaviour expected of banks, including promotion of the Code.

Additionally, the ABA's Consumer Stakeholder Forum, a pre-existing committee with ABA and consumer organisation members, is being engaged to support the independent review, as well as other stakeholder engagement mechanisms.

The review is scheduled to have two rounds of consultation:

- 1 An initial testing of stakeholder experience with the Code and their views about how it might be improved, with responses sought by 31 August 2016; and
- 2 Testing some of the ideas that have emerged, providing an opportunity for stakeholders to comment, the timing of which is yet to be announced.

The review is expected to be completed by 31 December 2016 and is being performed concurrently with the review of the Code Compliance Monitoring Committee.

Matters raised through the submissions to date have ranged from the micro-level detail of Code provisions to the macro-level issues of the Code structure, scope and place in the regulatory landscape.

While Mr Khoury has noted the high quality of submissions, he has also raised a cautionary note that the number of submissions was lower than expected, with some notable absences in terms of respondents, and the need for better engagement across the broad range of stakeholders in remaining consultations. This concern is partly mitigated by the extensive material arising from recent government reports and plans for the independent reviewer to meet with representative bodies unable to make an initial submission. In addition, typically the second round of consultation in reviews such as this is the more critical round.

Submissions to me have emphasised that there are a number of implementation risks, with a broadly similar distribution to these identified for Initiative 1 (see Figure 3 above).

In short, formal completion of milestones for this initiative remains on track. However, some contingency planning is under way as a precaution, with widespread acceptance among participants that the most important outcome is a thorough and comprehensive independent review.

Initiative 6: Supporting ASIC as a strong regulator

The objective of this review is to demonstrate the banks' commitment to a well-regulated banking and financial services industry.

The first measure in this initiative is a commitment to work with government and ASIC to implement a user pays funding model to enhance the ability of ASIC to investigate matters brought to its attention. This involved participation in formal consultations with government. The second measure is a commitment to work with ASIC to enhance the current breach reporting framework, with preparation of an industry position on breach reporting to be developed.

Discussions with government and ASIC have commenced, but are in the context of a range of competing priorities within government and its agencies, notwithstanding goodwill on all sides. As a result, some delays are emerging in completion of the planning and agreement of principles and further slippage is anticipated.

The ABA has foreshadowed potential changes to the implementation timetable, with the expectation that completion of measures relating to the industry funding model and breach reporting guidance likely to move from June 2017, per the original implementation plan, to December 2017. The industry continues to put in place governance arrangements to engage on these consultations.

Some of this timetable uncertainty was mitigated on 20 October 2016 when the government announced the terms of reference for the ASIC Enforcement Review Taskforce²². These terms of reference are quite broad, reflecting the approach suggested by the Financial System Inquiry in 2014, and include scope for the Taskforce to consider the issue of breach reporting related to this initiative. I am advised that banks will be engaging in the review. The timing for completion of the Taskforce's work is 2017 and this is likely to have implications for the timetable of this initiative.

Related to this, ASIC had flagged to me the potential benefit which would accrue from extending this initiative to include some focus on the broader reform agenda outlined in the Financial System Inquiry, relating to ASIC's ability to be a strong regulator. This is however a matter for the ABA.

ASIC also recognised the benefit to good regulatory outcomes which will follow from the successful completion of the other five initiatives.

3.3 Concluding remarks

Taken as a whole, good progress has been made in advancing these various measures in the three months since the first report.

Of the 12 planning milestones, eight (66%) have been completed, while two (16%) are on alert for slippage against plan and another two (16%) will not achieve the original planning milestones. Those which are on alert relate to Initiative 1 (Reviewing product sales commissions), and those which are behind plan relate to

²² Available at http://kmo.ministers.treasury.gov.au/media-release/095-2016/?utm_source=wysija&utm_medium=email&utm_campaign=Media+Release+%E2%80%93+ASIC+Enforcement+Review+Taskforce

Initiative 6 (Supporting ASIC) and are contingent on timing of government consultations.

Of the 12 agreement-of-principles milestones, four (33%) are completed²³, three (25%) are on track; another three (25%) are on alert for slippage against plan and two (16%) will not achieve the original agreement-of-principles milestones. Those on alert relate to Initiative 1 (Reviewing product sales commissions) and those which are behind plan relate to Initiative 6 (Supporting ASIC).

Of the 12 implementation milestones, one measure (8%) is completed (Measure 2.3) while six (50%) are on track. A further three (25%) are on alert and two (16%) are unlikely to achieve the original implementation milestones. As above, those on alert relate to Initiative 1 (Reviewing product sales commissions) and those which are behind plan relate to Initiative 6 (Supporting ASIC).

In other words, four of the six initiatives are progressing well, while Initiative 1 (Reviewing product sales commissions) is still on track but under close management with additional resources already provided to reduce the risk of slippage, while Initiative 6 (Supporting ASIC) will not meet the plan set three months ago. Such variations are not unusual with a program of this kind, particularly given the partial dependency of the program on factors essentially outside the banks' control. It was also recognised on all sides at the commencement of the program that the timing of Initiative 1 (Reviewing product sales commissions) and Initiative 5 (Code of Banking Practice review) was ambitious, that there would be complex legal issues which would need to be resolved in relation to Initiative 4 (Removing individuals from the industry for poor conduct), and that there are contingencies driven by government timing in relation to Initiative 6 (Supporting ASIC).

It also is apparent that the ABA and banks are very focussed on those areas of the program where there is alert for slippage relative to milestones and are putting in place mitigants to address these. The important aspect is that steps have already been put in place to respond to the issues arising, as well as the fact that the focus is primarily on getting the best outcomes. This is a positive sign of the industry's governance arrangements operating effectively in addressing the issues arising.

However, by the nature of this process whereby trade-offs between various stakeholder interests and implementation issues may be required, it is to be expected that the task for the industry will get more challenging from here. In addition, individual banks will increase the focus on their responses to the implementation of industry policies, and the measurement of the impact of these policies. This will be an important period for the industry to manage the various issues and interests in pursuit of the objectives of the industry initiatives.

The next report of this review is scheduled to be issued by no later than 21 January 2017.

²³ Included in this four is the agreement of a dedicated customer advocate, notwithstanding as noted above in section 3.2, that there is an implementation issue around the nature of the customer advocate in some smaller banks that would benefit from further ABA consideration and reference in its Guiding Principles.

Appendices

Appendix A Implementation plan as at 15 October 2016	23
Appendix B Stakeholder consultations undertaken to date	27
Appendix C Glossary and abbreviations	28

Appendix A Implementation plan as at 15 October 2016

Initiative	Objective	Measures / Implementation Steps	Implementation Phases ⁽¹⁾			Summary Deliverable ⁽¹⁾	Milestone Step ⁽¹⁾	Primary Responsibility ⁽²⁾
			Planning	Agreement of principles	Complete implementation			
1	Reviewing product sales commissions 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 ⁽³⁾	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 (eg 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		

Status key:
 Completed
 On target
 On alert for slippage against plan
 Adjustment required to original plan

Implementation plan as at 15 October 2016

Initiative	Objective	Measures / Implementation Steps	Implementation Phases ⁽¹⁾			Summary Deliverable ⁽¹⁾	Milestone Step ⁽¹⁾	Primary Responsibility ⁽²⁾
			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 ⁽³⁾	Jul-16 	Dec-16  ⁽⁴⁾	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

Status key:
 Completed
 On target
 On alert for slippage against plan
 Adjustment required to original plan

Implementation plan as at 15 October 2016

Initiative	Objective	Measures / Implementation Steps	Implementation Phases ⁽¹⁾			Summary Deliverable ⁽¹⁾	Milestone Step ⁽¹⁾	Primary Responsibility ⁽²⁾		
			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 whistleblowers across banks, including independent support and protection against financial disadvantage.	Jul-16	Dec-16	Jun-17	Industry position on whistleblower protections Implementation of whistleblower framework aligned with industry principles in each bank	e) Preparation of consensus submission to the Government f) Possible introduction of legislation to implement a scheme 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 Government 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. ⁽³⁾	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. ⁽³⁾	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

Status key:
 Completed
 On target
 On alert for slippage against plan
 Adjustment required to original plan

Implementation plan as at 15 October 2016

Initiative	Objective	Measures / Implementation Steps	Implementation Phases ⁽¹⁾			Summary Deliverable ⁽¹⁾	Milestone Step ⁽¹⁾	Primary Responsibility ⁽²⁾
			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 	Jun-17 	Industry agreement on funding model (*Implementation will be subject to consultation with and 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 	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

Status key:

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

Footnotes:

1. Based on advice from the entity with primary responsibility for implementation
2. Success indicators removed from the implementation plan as these will be dealt with separately in future reports
3. The objective/measure have been updated as described in Chapter 2
4. Refer to footnote 23 in the body of the report regarding completion of this implementation phase

Appendix B

Stakeholder consultations undertaken to date

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

- AMP Bank
- Arab Bank Australia
- Australian Bankers' Association
- Australian Securities and Investments Commission
- Australia and New Zealand Banking Group
- Bank Australia
- Bank of America Merrill Lynch
- Bank of Queensland
- Bendigo and Adelaide Bank
- BNP Paribas
- Citigroup Australia
- Commonwealth Bank of Australia
- Consumer Action Law Centre
- Defence Bank
- HSBC
- ING Direct
- Mr Philip Khoury
- Macquarie Bank
- ME Bank
- MyState Bank
- National Australia Bank
- Qudos Bank
- Rabobank
- Mr Stephen Sedgwick AO
- Suncorp Group
- United Overseas Bank
- Westpac Banking Corporation

Appendix C

Glossary and abbreviations

Term	Definition
ABA	Australian Bankers' Association
APRA	Australian Prudential Regulation Authority
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
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 bank representatives convened by the ABA to oversee implementation of the package of initiatives
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
Success indicators (Outcome indicators)	Key performance indicators to assess the effectiveness of measures in meeting the objectives of the initiatives