

Independent governance expert report

Australian banking industry: Package of initiatives

Report 6

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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>.

The information, statements, statistics, material and commentary (together the "Information") used in this Report have been prepared from publicly available material, from information provided by the Australian Bankers' Association and its member banks and from discussions held with, and information provided by, a range of other stakeholders and independent reviewers identified in Appendix C to the Report (collectively the 'other stakeholders'). I have relied upon the accuracy, currency and completeness of the Information provided by the Australian Bankers' Association, its member banks and other stakeholders and take no responsibility for the accuracy, currency, reliability or correctness of the Information and acknowledge that changes in circumstances after the time of publication may impact on the accuracy of the Information. The Information may change without notice and I am not in any way liable for the accuracy of any information used or relied upon by a third party.

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Executive summary

In response to industry concerns about a growing gap between performance delivered by banks and that expected by customers, the banking industry committed in April 2016 to a package of six initiatives to better protect consumer interests, increase transparency and accountability, and build trust and confidence in banks.

Over the course of the past three months since my previous report, the focus of implementation of the package of initiatives has increasingly moved from the development of the various measures by the industry as a whole to the implementation of those measures by individual banks, where such arrangements are not currently in place. Individual banks have reported for the most part good progress in recent months on their implementation programs.

Three of the six initiatives have now been advanced to the implementation stage, with measures progressed including the appointment of customer advocates by all participating banks, adoption of best practice whistleblowing policies by 19 banks with the remaining bank to finalise adoption by the end of the year, and all but one bank having either subscribed, or in the process of subscribing to, an industry-wide reference-checking protocol to improve employment practices and identify poor conduct. In addition, four banks have published their overarching principles on remuneration and incentives ahead of the December 2017 deadline. In this context, the ABA has been progressing the development of an external reporting framework for those elements of the initiatives which extend out to 2020 that will provide the basis for periodic reporting by individual banks. Overall, this represents another quarter of steady progress particularly with the advances being made in strengthening the Code of Banking Practice given its importance in building trust and confidence between banks and their customers.

At the same time, the broader environment never stands still for long with serious concerns about regulatory compliance in some quarters, while new legislative requirements such as the Bank Executive Accountability Regime (BEAR) are being introduced. These developments underline the importance of the ABA's package of industry reforms being cohesive and reinforcing high standards of individual and organisational performance.

Against this background, one notable aspect of the package of initiatives introduced last year has been the extent to which a number of the participating banks have taken a broader view of the measures, and either sought to extend them to other parts of their operations beyond retail banking or further build on the 'minimum required standards' established by the ABA. In those banks, leveraging opportunities to extend the benefits of the industry's initiatives have been pursued to allow common policies to be adopted bank-wide in order to reinforce aspects of organisational culture and performance, and ultimately provide the foundation for increased confidence by bank customers.

During this quarter, the ABA has made one revision to its implementation plan. As part of the work on remuneration and incentives, the ABA has confirmed that at this stage, it will not be preparing industry-level guiding principles on remuneration separate to those published by individual banks, as initially envisaged. This does not alter the industry commitment for each bank to develop and publish their overarching principles on remuneration and incentives, and allows resources to be directed to other initiatives and reforms. In taking this decision, the industry has forgone the opportunity to demonstrate strong leadership in an area which has traditionally had a high profile, by building on the momentum of change stimulated by the Sedgwick Review and ASIC's report on

mortgage broker remuneration. Nevertheless participating banks are progressing the development and publication of their overarching principles on remuneration and incentives, consistent with the objective of the initiative, and contemplating opportunities to communicate these more broadly.

Additionally, the industry has indicated that it has put on hold further work on the development of an industry register as part of Initiative 4 (Removing individuals from the industry for poor conduct). While it had been acknowledged from the outset that development of an industry register would present complex legal and operational issues, the implementation of the industry register had been intended to be the primary vehicle for delivering on the objective of this initiative. The introduction of the ABA's *Reference Checking & Information Sharing Protocol* for financial advisers and the implementation of the ABA's *Conduct Background Check Protocol* for bank employees are both mechanisms which contribute to the goal of addressing poor conduct moving around the industry. However, these protocols do not have the reach or coverage anticipated by the original or revised objective for this initiative, even allowing for the more recent developments that are adding to the prudential and financial services licensing requirements applicable to individual banks.

At this stage, the industry is focusing on bedding down the protocols, contributing to the Government's reforms to introduce a new register to be administered by APRA, and liaising with ASIC on the operation and function of the Financial Adviser Register. The ABA has indicated that the industry will continue to work with APRA and ASIC as well as the Finance Sector Union (FSU). It is anticipated by the ABA that the parameters of the new register being introduced under the BEAR will be better understood by the end of this year. The ABA has advised that the industry will reassess what further efforts may be needed on Initiative 4 (Removing individuals from the industry for poor conduct), but it is the industry's assessment that additional regulation will be required.

Beyond the formal measures that the industry has committed to, special mention should be made of the publication on 28 August of independent banking industry research on consumer views in relation to the core objectives of this programme – building trust, confidence and transparency. Publication of such data is unprecedented for the industry, not least because of the commitment to publish updated data on an ongoing basis from January 2018. The research confirmed customers have low levels of trust, confidence and transparency in the banking industry, however the research did also identify that 53% of those surveyed showed trust in their main bank, compared with 31% for the banking industry. Of note, the research also shows that the initiatives that were expected to have the greatest impact on trust were strengthening the Code of Banking Practice and changing the way bank staff are paid.

While the banking industry is to be commended for both measuring and reporting on its performance as an industry, the development and publication of bank-level performance indicators of trust and confidence has not been strongly supported within the industry. In my previous report I indicated that it would be desirable for the industry to be clear about its intentions around public reporting by individual banks going forward, and even better if the major banks were to show the way in reporting individual results. As part of preparing this report, specific feedback was sought on bank-level reporting, with some banks seeing benefit in bank-level reporting. However, a common concern of measuring performance on a consistent basis across the participating banks was expressed, along with the ability to obtain adequate sample sizes being a particular concern for the smaller banks. Ultimately, these are matters for consideration and decision by the individual banks as this level of reporting was not originally contemplated in the package of initiatives.

My meetings with the Chief Executive Officers during the course of this review have shown a high level of commitment, and a quiet determination to rebuild the

trust and confidence of customers. The chief executives are conscious that in addition to delivering on the various measures agreed to by the industry, bank values and culture are key to the success of each bank in achieving the industry's goals. Accordingly, many of the banks have instituted initiatives involving the chief executive and their executive leadership groups in conversation with employees on the values and behaviours expected within their bank. These have often been complemented by staff surveys in order to inform further steps that might be beneficial.

Reflecting the fundamental importance of culture, a chief executive of one of the major banks recently observed:

“I believe the key to delivering these outcomes is building a culture that is focused on our customers and backs our people to deliver outstanding services and products for our customers.”

The next report of this review, Report 7, the final report in the series, is scheduled to be issued by no later than 21 January 2018.

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1 Introduction

1.1 Industry initiatives to strengthen community trust

This is the sixth report on the banking industry's package of initiatives to protect consumer interests, increase transparency and accountability, and build trust and confidence in banks. The initiatives, and their associated objectives, are:

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 or other mechanism 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.

Under each of the industry's initiatives a number of more detailed measures have been developed, together with milestones for completion. The implementation plan is included in Appendix A, with 20¹ of the ABA member banks confirming their active involvement in the package of initiatives. The participating banks are listed in Appendix B.

¹ Defence Bank has advised that from 30 June 2017 it is no longer a member of the ABA.

1.2 Background to the independent review and summary of the previous report

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.² PwC Australia is supporting 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 am able to assess progress in development of the various measures, progress being made by banks is 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.

My last report (Report 5) was issued on 20 July 2017³ and noted that good progress had been made by the industry to date in advancing its reform program. While we still needed to see more rubber on the road, it was evident that there were early signs of the reforms starting to gain traction. At the time, I indicated that the focus going forward will increasingly be on the efforts of individual banks to embed the reform measures to deliver on the goals of the six industry initiatives.

Report 5 also noted that the industry is to be commended for directly seeking to measure its performance in terms of the high-level objectives for its reform program, and its willingness to publish this information. Further, Report 5 observed that better public reporting during the period that the industry reforms are being bedded down is likely to lead to better outcomes for customers given the competitive nature of the industry and the evident desire on the part of all participating banks to raise the standards of customer service.

The next report of this review, Report 7, is scheduled to be issued by no later than 21 January 2018 and will be my final report in the series.

² Available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/letter-of-engagement>

³ Available at http://www.betterbanking.net.au/wp-content/uploads/2017/04/ABA-Report-4_Final_21-4-17-.pdf

2 Industry implementation progress

2.1 Introduction

The status of industry-level measures, comprising the principles, policies and/or frameworks to guide the industry and individual banks in tailoring approaches to the achievement of the industry objectives, is summarised in this chapter. Changes in industry arrangements to oversee the development and implementation of the various initiatives, along with a further revision to the implementation plan are also outlined.

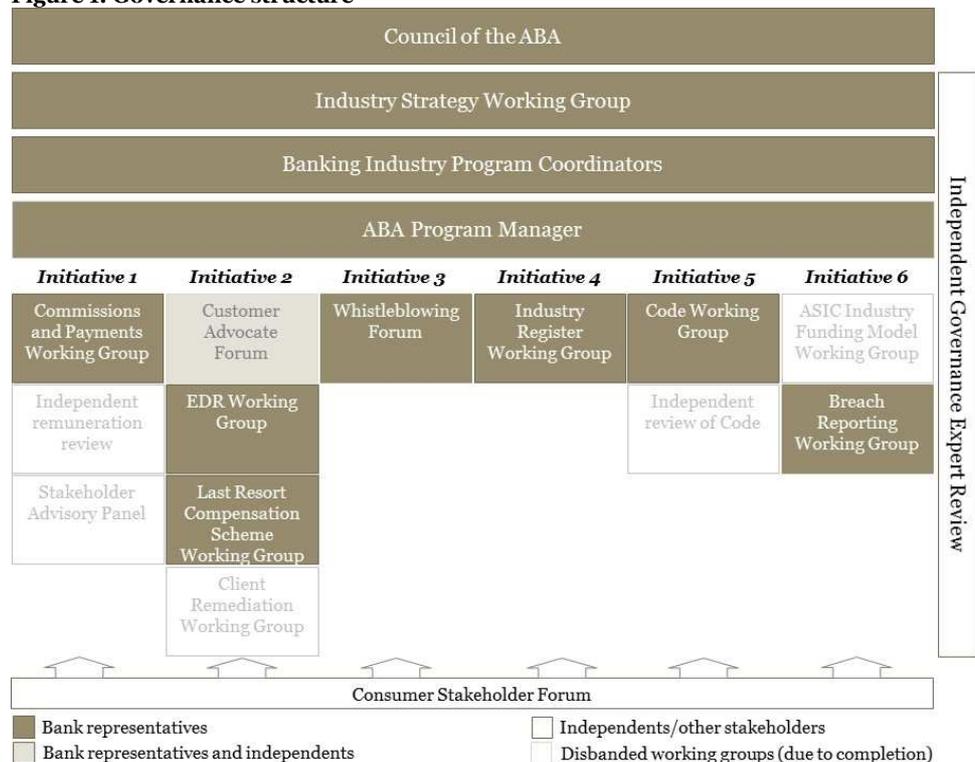
In addition, this chapter also provides an update on the progress made by the industry in defining performance indicators to evaluate the success of the industry and individual banks in meeting the broad objectives of the package of initiatives.

2.2 Changes to governance structure

As noted in my previous reports, 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 in banks remain clearly in focus.

With completion of a number of measures, changes have been made to either wind up various working groups, or embed monitoring within other functions or committees of the ABA. The updated governance structure is outlined in Figure 1.

Figure 1: Governance structure



There have been a number of changes made or flagged by the ABA, including:

- **Consumer Stakeholder Forum:** This Forum pre-existed the Better Banking Program, and had focused primarily on the review and redraft of the Code of Banking Practice. As this work transitions from engagement on the new Code to the ASIC approval process and implementation by banks, the Forum will return to taking a broader view on banking practices and a more active consultative role across all of the initiatives;
- **Customer Advocate Forum:** With the implementation of the customer advocate initiative complete, members of the former Customer Advocate Working Group have been replaced by bank Customer Advocates, in order to create the Customer Advocate Forum; and
- **Whistleblowing Forum:** With the implementation of the whistleblowing initiative complete and the publication of the final report of the Parliamentary Joint Committee on Corporations and Financial Services into whistleblower protections in the corporate, public and not-for-profit sectors, members of the former Whistleblowing Working Group are being replaced by key bank contacts, in order to create the Whistleblowing Forum.

2.3 Revisions to the implementation plan

As the participating banks have progressed the development of their own overarching principles on remuneration and incentives, the ABA has advised that based on member bank feedback and with regard to other factors including competition and corporations law considerations, the industry has determined it does not require industry-level principles to assist with the implementation of this initiative; this has enabled resources previously allocated to this measure to be redirected to other initiatives and reforms.

The ABA has advised the following revision to the implementation plan:

Initiative 1: Reviewing product sales commissions and product based payments	
Measure 1.2: Each bank commits to ensure it has overarching principles on remuneration and incentives to support good customer outcomes and sound banking practices	
<i>Original milestone steps</i>	<i>Revised milestone steps</i>
a) Analysis of existing remuneration structures and practices and creation of initial framework	a) Analysis of existing remuneration structures and practices and creation of initial framework
b) Preparation of draft guiding principles to assist each bank meet the commitment	b) Preparation of draft guiding principles to assist each bank meet the commitment
c) Consultation and stakeholder engagement	e) Consultation and stakeholder engagement
d) Finalisation of guiding principles	d) Finalisation of guiding principles
e) Identification and development of overarching principles by each bank	e) Identification and development of overarching principles by each bank

In taking this decision to vary its implementation plan, the industry has forgone the opportunity to establish guiding principles and demonstrate strong leadership in this area which has traditionally had a high profile, by building on the momentum for change stimulated by the Sedgwick Review and ASIC’s review of mortgage broker remuneration.

In addition, the industry has indicated that at this stage it has put on hold further work on the development of an industry register as part of Initiative 4 (Removing individuals from the industry for poor conduct). While it had been acknowledged from the outset that development of an industry register would present complex legal and operational issues, the implementation of the industry register had been intended to be the primary vehicle for delivering on the objective of this initiative.

At this stage, the industry is focusing on bedding down the *Conduct Background Check Protocol*, contributing to the Government's reforms to introduce a new register to be administered by APRA, and liaising with ASIC on the operation and function of the Financial Adviser Register. The ABA has indicated that the industry will continue to work with APRA and ASIC as well as the FSU. It is anticipated by the ABA that the parameters of the new register being introduced under the BEAR will be better understood by the end of this year, at which point the ABA has advised that the industry will reassess what further efforts may be needed on Initiative 4. This decision reflects a level of pragmatism in the face of challenges in delivering on the original goal, as well as the changing external environment. It also reflects the industry view that additional regulation will be required.

2.4 Update on progress of initiatives

This section summarises the progress of the industry-level initiatives. For those initiatives for which the industry-level measures are complete (or complete with the next phases reliant on government) commentary on progress has only been made where further developments have occurred in this current quarter.

Initiative 1: Reviewing product sales commissions and product based payments

The industry-led elements of Initiative 1, which involved the establishment of the independent review into product sales commissions and product based payments by Mr Stephen Sedgwick AO (‘the Sedgwick Review’) and the development of overarching principles on remuneration and incentives by participating banks, is largely complete.

The ABA is now working on the establishment of an external reporting framework (setting out the minimum external reporting requirements for banks) in order to track participating banks' progress in implementing the findings of the Sedgwick Review up to the implementation deadline of the 2020 performance year, in line with the review's recommendations. It is expected that the first implementation report will be incorporated into my next quarterly report, to be published in January 2018, with ongoing ABA reporting required thereafter.

In addition to this, the ABA continues to work with the mortgage broking industry to develop an industry response to ASIC's review of mortgage broker remuneration and the recommendations of the Sedgwick Review which relate to incentive mechanisms for third party providers.

The implementation plan specified, at Measure 1.3, that the industry would work with regulators to implement changes to remuneration structures through regulatory approval or legislative reform (where necessary). When this measure was identified it was prior to the Sedgwick recommendations being made or the establishment of the Combined Industry Forum by the ABA. Banks have committed to implement the Sedgwick recommendations and are progressing their own implementation plans. Banks and the ABA are also working with the mortgage industry on implementation of changes to payments. At this point, it is the intention of the Combined Industry Forum to proceed without the need for regulatory or legislative intervention to achieve the outcome of improved payments and governance practices. Separately, the participating banks are working through their overarching principles on remuneration and incentives, including consideration of the most appropriate mechanism to externally report on these changes.

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

Initiative 2 comprises: establishing a customer advocate in each bank; supporting the broadening of external dispute resolution (EDR) schemes; working with ASIC to expand customer remediation programs; and evaluating the establishment of an industry-wide mandatory last resort compensation scheme. Industry-level work on the customer advocate and customer remediation measures for this initiative is complete.

The industry supports a 'one-stop shop' for external dispute resolution. Legislation required to establish the Australian Financial Complaints Authority (AFCA), the proposed authority for external dispute resolution, was referred to the Senate Economic References Committee for inquiry, with the Committee's final report released on 17 October 2017 recommending the legislation be passed. The ABA provided a submission to this review, which supported the introduction of a new, simplified one-stop-shop EDR system.

In relation to the last resort compensation scheme, it is understood that the Government is shortly to publish and respond to the final Ramsay report on last resort compensation scheme. The ABA is awaiting further developments.

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

This initiative reflects the industry's commitment to establishing the highest standards of whistleblower protections by ensuring there is a robust and trusted framework for escalating concerns, and included the adoption of *Guiding Principles – Improving Protections for Whistleblowers* on 21 December 2016,⁴ developed by the ABA.

Since publication of Report 5, the final report of the Parliamentary Joint Committee on Corporations and Financial Services into whistleblower protections in the corporate, public and not-for-profit sectors, was released on 13 September 2017.⁵

The Committee's report included recommendations to:

- Adopt a tiered approach to reporting, comprising: internal disclosure; regulatory disclosure; and external disclosure (in appropriate circumstances);
- Align thresholds for protection across the public and private sectors;
- Broaden the definition of whistleblowers to include protections for both former and current staff that could make a disclosure, or are suspected of making a disclosure;
- Provide appropriate protection for recipients of disclosures and those required to take action in relation to disclosures; and

⁴ Refer to http://www.betterbanking.net.au/wp-content/uploads/Final_Whistleblower_Guiding_Principles-Dec-2016.pdf

⁵ Available at http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/WhistleblowerProtections/Report

- Establish an appropriate body to set and promote standards for internal disclosure procedures in the private sector.

The ABA has advised that it is in the process of reviewing this report and will revisit its Guiding Principles as appropriate.

Initiative 4: Removing individuals from the industry for poor conduct

The objective of this initiative was to demonstrate the banks' commitment to improved practice and implementing an industry register or other mechanism to identify poor conduct across all bank employees, including customer facing and non-customer facing roles, and promote good conduct and ethical behaviour.

The ABA and the banks had advanced, as an interim measure, the development of a new *Conduct Background Check Protocol* for bank employees (the 'Protocol'), recognising that the development of an industry register as a mechanism to improve recruitment practices and decisions in the banking industry would be contingent on some form of statutory underpinning. Further information on the banks' adoption of the Protocol is included in Chapter 3.

In a submission to this review, the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) has questioned the value of putting resources into the development of the Protocol due to its inherent constraints. The ASBFEO observed that the key concern revolves around poor conduct during employment, when conduct can be assessed, with measures in place to remove these individuals and subsequently identify them to the broader industry. These comments were made against the background of the Edelman Intelligence report which found that 72% of customers consider removing individuals from the industry for poor performance to be the second most important initiative to make banking better.

The industry has decided to put on hold further work on the development of an industry register at this time given the focus on bedding down the Protocol and working with the Government and regulatory authorities, as outlined in Section 2.3 above. The ABA has advised, however, that discussions with ASIC, APRA and the FSU will continue.

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.

The ABA has advised that the banks and the ABA have continued to target resources towards the development of a new Code. Significant work has been undertaken by the industry in settling industry positions on the Khoury and other recommendations, establishing sub-working groups to progress legal, technical and operational matters to allow delivery of the new industry commitments, and redrafting the Code using a more consumer-focused and friendly structure.

In a submission to this review, the ABA noted that the penultimate draft of the new Code has now been approved by banks and being used in the final round of stakeholder engagement. The ABA has continued to work with the Consumer Stakeholder Forum, with a number of meetings being held to go through the details of the new Code. The ABA has advised it has conducted 22 meetings in this final round of stakeholder engagement, with the penultimate draft of the new Code

being considered. It is expected that stakeholders will provide feedback to the ABA by the end of October 2017.

The ABA has advised that the redrafting of the Code is on track to be completed by the December 2017 deadline. Given the magnitude of this task, this is very good progress on such a key element of the package of initiatives.

The ASBFEO has applauded the resources and approach the ABA is taking in leading the development of the revised Code, and looks to the revised Code to make the banks' commitment to their customers transparent and actionable.

Concurrently, the banks and the ABA have been working with ASIC and the Code Compliance Monitoring Committee (CCMC), respectively. The ABA has conducted initial meetings with ASIC as part of the ASIC approval process for the new Code, which is intended to expedite the approval process. The ABA has also continued to work with the CCMC on its mandate. The ABA is also monitoring developments of the ASIC Enforcement Review, where there is consideration being given to industry codes. The outcomes of this review may impact on the new Code and the process, timing and adoption of the new Code by banks.

Following completion of the redrafted Code, the ABA will seek ASIC's formal approval, with an anticipated 12 month transition period to follow for the subscribing banks to adopt the revised Code. The ABA has indicated that the industry will confirm the timing for implementation ahead of my next report.

Initiative 6: Supporting ASIC as a strong regulator

This initiative comprised working with government and ASIC to implement a 'user pays' industry funding model to enhance the ability of the regulator to investigate matters brought to its attention. In addition, the industry also indicated its intention to work with ASIC to enhance the current breach reporting framework to provide more consistency in how its regulatory guidance is interpreted.

The ASIC industry funding legislation became effective from 1 July 2017, with the cost recovery framework finalised on 14 July 2017.⁶ In relation to changes to the breach reporting framework, I am advised that, following consultation with the industry, the Government is continuing to work through proposed legislative amendments.

Overall progress

The current status of measures supporting each initiative is summarised in Figure 2 below, with a comparison to the status reported in Report 5 (R5). Further information is provided in the implementation plan at Appendix A.

⁶ Available at <http://asic.gov.au/regulatory-resources/find-a-document/reports/rep-535-asic-cost-recovery-arrangements-2017-18/>

Figure 2: Implementation status of the trackable measures⁷

Milestone Status	Planning		Agreement of Principles		Complete Implementation	
	R6	R5	R6	R5	R6	R5
Complete	13	13	12	10	6	6
On track	-	-	1	-	3	1
On alert	-	-	-	3	-	2
Date not yet specified	-	-	-	-	1	1
Next phase reliant on government	-	-	-	-	3	3
Total	13	13	13	13	13	13

Aside from those measures where the next phases are reliant on government processes, which continue to be monitored by the ABA, the initiatives not yet finalised are:

- Initiative 1 (Reviewing product sales commissions and product based payments): Measure 1.2 (Each bank commits to ensure it has overarching principles on remuneration and incentives to support good customer outcomes and sound banking practices) and Measure 1.3 (Work with regulators to implement changes and, where necessary, seek regulatory approval and legislative reform) are now on track under current plans, with participant banks reporting that they will be in a position to complete these initiatives by the scheduled December 2017 deadline;
- Initiative 4 (Removing individuals from the industry for poor conduct): While there are no further actions contemplated at this time, the ABA will reassess whether any further efforts are required at the end of the year; and
- Initiative 5 (Review of the Code of Banking Practice): Work on redrafting the Code of Banking Practice is still under way. This is the only remaining agreement-of-principles milestone remaining for this initiative, which is on track for completion by 31 December 2017.

Report 5 highlighted two areas 'on alert', these are now 'on track'. Overall, this represents another quarter of steady progress particularly with the advances being made in strengthening the Code of Banking Practice given its importance in building trust and confidence between banks and their customers.

⁷ Quantification and summary status of milestones is based on the information outlined in the implementation plan contained in Appendix A.

2.5 Update on development of performance indicators

Since publication of Report 5, the ABA has released a major piece of research to gauge consumer sentiment on trust and confidence in banks.⁸ The research conducted by Edelman Intelligence surveyed 1,000 customers and sought views from a number of focus groups between May and June 2017. The research confirmed the low levels of trust, confidence and transparency in the banking industry held by customers, however, it also identified that 53% of those surveyed showed trust in their main bank, compared with 31% showing trust in the banking industry as a whole.

Publication of such data is unprecedented for the industry. The report found that, among other things:

- Consumers are receptive to the Banking Reform Program, and there is positivity regarding the benefits that the initiatives will bring;
- Consumers feel that all the Banking Reform Program initiatives are important. When asked to score the importance of each 'making banking better' initiative, consumers surveyed rated all initiatives important, with scores ranging between 62% and 75%;
- These findings highlight the public's receptiveness to reform. They also highlight a need for the industry to keep communicating publicly about its commitment to the program, and the benefits and outcomes these initiatives will deliver;
- Prior to widespread implementation, the results show there is varied awareness among consumers of their main bank's delivery against these initiatives over the last 12 months. Consumers are most aware of actions their main bank has taken in relation to the removal of individuals from the industry for poor conduct (53%), followed by a strengthening of commitment to the Code of Banking Practice (51%).

Lower levels of awareness apply to initiatives that have yet to be finalised and implemented. For example, the establishment of a mandatory, prospective last resort compensation scheme covering financial advisers, is subject to the outcome of the Ramsay Review, see section 2.4; and

- Building trust, confidence and transparency will be driven by stability, regulation and reliability. The initiatives that will have the greatest impact on trust are strengthening the Code of Banking Practice and changing the way bank staff are paid. Strengthening the Code of Banking Practice was also cited as have the greatest impact on transparency and confidence.

The ABA has committed to a second phase of research, extending this survey to bank employees as well as customers, with the aim of publishing results in January 2018. This is a further significant step forward in the development of industry-level performance indicators to assess the effectiveness of the package of initiatives in meeting its stated objectives. In welcoming the research and its public report, the FSU has emphasised the importance of feedback from all employees on whether real change and progress is being made in rebuilding trust and confidence, and not just senior managers.

⁸ Available at http://www.bankers.asn.au/images/uploads/MediaReleases/ABA_Banking_Reform_Program_Report_August_2017.pdf

While the banking industry is to be commended for both measuring and reporting on its performance as an industry, the development and publication of bank-level performance indicators of trust and confidence has not been strongly supported within the industry. In my previous report I indicated that it would be desirable for the industry to be clear about its intentions around public reporting by individual banks going forward, and even better if the major banks were to show the way in reporting individual results. As part of preparing this report, specific feedback was sought on bank-level reporting, with some banks seeing benefit in bank-level reporting. However a common concern of measuring performance on a consistent basis across the participating banks was expressed, along with the ability to obtain adequate sample sizes being a particular concern for the smaller banks. Ultimately, these are matters for consideration and decision by the individual banks as this level of reporting was not originally contemplated in the package of initiatives.

2.6 Concluding remarks

The focus of implementation has increasingly moved from the development of measures by the industry as a whole to the implementation of those measures by the individual banks, where such arrangements are not currently in place.

As noted earlier, the primary focus at an industry level has been on the revisions to the Code of Banking Practice under Initiative 5 (Review of the Code of Banking Practice). Along with Initiative 1 (Reviewing product sales commissions and product based payments) and Initiative 4 (Removing individuals from the industry for poor conduct) these are the only initiatives which require further action from the industry.

It is also encouraging to see progress made in the development of industry-level performance indicators. With the publication of the industry-level indicators of trust and confidence, a baseline has been set to assess the progress of the industry as it moves from completion of the initiatives, to embedding the measures in their interactions with customers, and the more broadly into the culture of each of the banks. While the banking industry is to be commended for both measuring and reporting on its performance as an industry, an industry decision on the development and publication of bank-level performance indicators of trust and confidence has not been strongly supported.

Overall, steady progress has been made by the industry on the development of the measures to which it has committed.

3 Implementation by the banks

3.1 Introduction

As previously mentioned, in the current quarter the focus of effort has continued to shift from industry-led initiatives, to the implementation activities undertaken by the banks. This chapter outlines the progress made by the 20⁹ participating banks in implementing the various measures for which they are individually responsible, and is based on feedback from their Chief Executive Officers. All banks responded to this request.

3.2 Progress on initiatives

It is important to recognise that not all banks are starting the implementation of the agreed measures from scratch. A number of banks have had elements of the measures in place for some time, akin to those promoted by the ABA. Nevertheless, for the purpose of this review progress has been assessed against the industry agreed timetable.

In the broad, the participating banks are progressing each of the initiatives, and further refining and moving to embed measures within their organisations. One notable aspect is the extent to which banks have taken a broader view of the measures, and either sought to extend these to other parts of their operations or further build on the 'minimum required standards' set out by the ABA.

Some banks, where retail banking is not the primary segment of their businesses, have reported aspects of the initiatives that they have adopted across their broader financial services operations. Suncorp Group has provided Case Study A below, outlining how the customer advocate function has been implemented across their organisation.

⁹ As noted in Chapter 1, Defence Bank is no longer a member of the ABA.

Case Study A: First to apply Customer Advocate across insurance and banking

Suncorp's strategy is focused on providing value for all its customers, which is why the Customer Advocate function extends across the entire Group.

Suncorp's Customer Advocate works proactively across banking, wealth, and insurance to drive better outcomes and experiences for Suncorp's nine million customers. It builds on our culture of customer advocacy by increasing accountability and transparency at all levels.

The office of the Customer Advocate has prioritised support for vulnerable customers and is working with leading community services organisation, Uniting Kildonan, to review the way we identify and assist our customers right across the business. This will enable us to enhance the way we provide customers, including those with complex, unusual or sensitive complaints, with access to an independent Customer Advocate review through internal referral.

The office is also focused on ensuring key strategic decisions are informed by customer insights, and provides fair and ethical outcomes for our customers. It has the power to recommend and instigate changes to our current processes, identify areas for improvement and make it easier for our customers when things go wrong.

We remain strongly committed to all of the Six Point Plan initiatives and, where appropriate, will continue to implement them across the entire Group – which is an insurance industry first.

Another bank has advised that it is also in the process of appointing a group-wide customer advocate with responsibilities extending beyond their retail banking operations. Leveraging opportunities to extend the benefits of the industry's initiatives have also been pursued by a number other participating banks to allow common policies to be adopted bank-wide, in order to reinforce aspects of organisational culture and performance, and ultimately provide a foundation for increased confidence by bank customers.

These actions demonstrate the positive intent of the participant banks to adhere to the objectives of the initiatives, and in this way work towards bridging the trust gap between banks and their customers.

Initiative 1: Reviewing product sales commissions and product based payments

The independent review of product sales commissions and product based payments by Mr Stephen Sedgwick AO (the 'Sedgwick Review'), outlined 21 recommendations for banks in order to strengthen the alignment of retail bank incentives, practices and good customer outcomes.¹⁰ Further, the Sedgwick Review specified that the recommendations be adopted by the performance review cycle ending 2020.

The majority of banks are progressing well in implementing the Sedgwick recommendations, although recognising that some of those recommendations may take more time and effort to implement than others.

¹⁰ Available at <http://retailbankingremreview.com.au/2017/04/19/publication-of-the-final-report-of-the-independent-review-of-product-sales-commissions-and-product-based-payments-in-retail-banking-in-australia/>

As an indication of the balanced-score card approach that is being contemplated in light of the Sedgwick Review, one bank has advised that:

- Incentives will no longer to be paid directly on sales and the sales weighting will be reduced;
- The overall incentive amount will be reduced to be a smaller proportion of fixed pay than at present;
- New measures will be introduced including performance, behaviours and compliance (specifics yet to be finalised);
- A new customer metric will be introduced (specifics yet to be finalised) to focus on the delivery of positive customer outcomes; and
- The existing volume based metric is being removed, as are “accelerators”.

An alternative variable reward model for all salaried employees has been adopted by Bendigo and Adelaide Bank, named the “Value Created Dividend”. While the Bank’s variable reward model has not incorporated any incentive payments to employees for many years, this new model aims to share any value created by the Bank with employees based on their contribution to that value. Contribution is assessed using a matrix considering the extent and frequency to which the employee exceeded expectations against a balanced scorecard of goals versus how those goals were achieved (i.e., behaviours). The new Value Created Dividend model is currently being shared with various stakeholder groups.

Further, the ANZ Bank has advised it is making changes to remuneration practices in the ‘spirit’ of Sedgwick such as changing out of scope roles in business banking to align to the same balanced scorecard structure applying to branch and contact centre staff. In a similar vein, the Commonwealth Bank has advised that it has developed remuneration guidelines to ensure variable remuneration schemes are designed consistently across the organisation. By taking advantage of leveraging opportunities such as these, banks not only reinforce the benefits of the reform measures but extend them in a cohesive manner across the organisation, thus avoiding the risk of silo approaches.

As noted in Chapter 2, the ABA and the banks are considering how progress by individual banks against the Sedgwick recommendations will be reported through to 2020. In my next report (Report 7), I expect to publish the implementation status of the individual banks. It is noteworthy however that a number of banks, particularly the major banks, have advised that some of the Sedgwick recommendations are already complete.

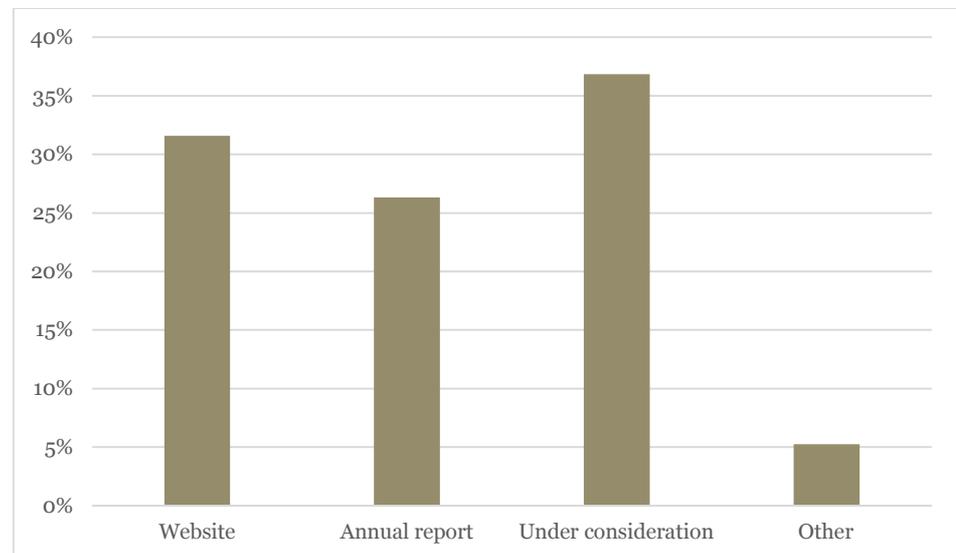
The Sedgwick Review was also intended to inform individual banks in their development of, or refinement to, overarching principles on remuneration and incentives to support good customer outcomes and sound banking practices, with this work planned for completion by December 2017. The banks have advised that they are continuing their work on development and publication of overarching principles on remuneration and incentives, and four¹¹ of the participating banks have already published these principles in advance of the industry deadline.

As noted in Section 2.3, the industry has decided not to proceed with the development of industry-level guiding principles on overarching principles on remuneration and incentives. As a consequence there are a range of approaches methods being proposed by the banks to determine the principles at an individual bank level, and subsequent publication of those bank-level overarching principles.

¹¹ Bank Australia, Macquarie Bank, National Australia Bank and Westpac Banking Corporation

Among those participating banks that have formed a view, publication on the bank’s website is the more common approach.

Figure 3: Proposed methods of publication of overarching principles on remuneration and incentives



Overall, the progress of individual banks in respect of this initiative is encouraging.

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

All participating banks appointed their customer advocates by 30 June 2017, with those that had adopted earlier reporting positive engagement and perceived benefits in assisting customers, as well as helping the banks themselves better identify potential areas for improvement.

Examples of the benefits that have accrued to the banks through effective utilisation of the customer advocate include:

- More efficient resolution (measured by days taken to resolve complaints);
- Focusing on long-dated complaints to assist in achieving resolution;
- Incorporating lessons learned from escalated complaints, or through retrospective review of closed complaints, to identify and address systemic issues;
- Identification of enhancements to existing complaints processes; and
- Providing the “voice of the customer” to culture and conduct initiatives, as well as new product approval processes.

One bank observed that having the contact of the customer advocate on the bank’s website has been creating greater awareness and there has been an increase in customers seeking assistance when previous contacts with the bank are not meeting their expectations; and the customer advocate has been able to support these customers in resolving their complaints quickly.

Customer advocates continue to develop innovative ways to identify and assist in the remediation of problems areas, as demonstrated by Case Study B provided by National Australia Bank (NAB).

Case Study B: Customer journey mapping

On the basis of the Office of the Customer Advocate's (OCA) retrospective review of customer cases and escalations, the OCA has prepared a number of customer journey maps. Each of these journey maps visually and succinctly documents a particular customer's interactions with the bank from the time a dispute arose to its ultimate resolution. OCA representatives attend regular gatherings of bankers in various parts of the bank – on a rotating basis – to facilitate discussion about the customer journey and encourage bankers to identify opportunities along that journey where they had the ability to say or do something differently which would have resulted in a better experience for the customer. The journey maps have also been used as a visual and discussion tool at NAB's most recent Customer Connect day, a day on which back office employees of the bank calls a list of customers to check in, identify any issues and gauge how they feel about the service they get from the bank. In this way the work of the OCA is being used to not only resolve dispute and identify issues, but develop a stronger understanding of the customer experience and a culture of customer empathy among both frontline and back office employees of the bank.

All indications are that the industry is continuing to benefit from the establishment of customer advocates by individual banks, particularly where a broad charter for the role has been adopted.

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

The *Guiding Principles – Improving Protections for Whistleblowers* was published by the ABA on 21 December 2016,¹² and all participating banks, with the exception of Bank of Queensland, now have whistleblower policies in place which reflect these guiding principles. The Bank of Queensland has advised that it intends to finalise updates to its whistleblower policy by the end of October 2017.

In a submission to this review, the FSU has indicated that it continues to hold reservations regarding the effectiveness of the whistleblowing policies in practice, with its experience continuing to see that cultural alignment is required for these policies to be effective and to encourage workers to speak up and speak out where practices are considered cultural norms but in fact jar with workers ethics and values.

These concerns raised by the FSU are obviously an issue for banks to keep in view in implementing the revised whistleblowing policy and reinforcing support for employees to speak up in circumstances where suspected or actual misconduct or unlawful activity within an organisation comes to their attention. There may be an opportunity for the industry to liaise with ASIC's Office of the Whistleblower to discuss experiences and gain insights to ensure practices and lessons are understood from more broadly across the financial services and corporate sector.

The majority of banks have advised that it is too early at this stage to have any significant observations on the operation and/or effectiveness of the revised whistleblower policy. However, Westpac has indicated that it is further supplementing the policy to ensure it is embedded through a 'wellbeing and quality assurance assessment' in order to ensure the whistleblowers receive adequate support as well as reinforcing the whistleblowing channels with staff counsellors, among other measures. Further details are outlined in Case Study C below.

¹² Refer to http://www.betterbanking.net.au/wp-content/uploads/Final_Whistleblower_Guiding_Principles-Dec-2016.pdf

Case Study C: Ensuring whistleblowers receive adequate support

Westpac is committed to having an environment where it is safe to speak up. All staff should feel confident and comfortable about reporting concerns about wrongdoing. We value whistleblowers and the information they disclose, and are committed to protecting the dignity, well-being, career and good name of anyone reporting wrongdoing.

We have identified opportunities to further enhance the support we provide to whistleblowers and foster a culture where it is safe to speak up.

To support our revised Whistleblower Protection Policy, we have now implemented new wellbeing assessment procedures and a quality assurance process to monitor outcomes for whistleblowers. The new wellbeing assessment has been implemented for investigators to confirm the wellbeing of whistleblowers and ensure they receive adequate support throughout the process.

We will use the results from the wellbeing assessments and quality assurance process to monitor the implementation and outcomes of the whistleblower policy and identify opportunities for both policy and process improvements and training or communication opportunities to ensure we are providing the right support to whistleblowers. Westpac's Whistleblower Protection Officer also performs a weekly review to identify separations from the bank that may have been associated with whistleblowing.

In comments to the review, Citigroup advised that robust and extensive arrangements had been in place for some time for facilitating whistleblowing. Citigroup also underlined the importance of:

- The 'tone from the top';
- Staff's faith in the integrity, effectiveness and outcomes of the whistleblowing process;
- The provision of accessible, flexible and simple media for staff to 'speak up'; and
- The independence of the Citigroup's ethics office (or equivalent) and related structure helps to ensure that all issues raised are recorded, investigated and monitored while protecting the whistleblower.

With the release of the Parliamentary Joint Committee on Corporations and Financial Services Whistleblower Protections report on 13 September 2017, some of the banks have indicated they are assessing any enhancement that may be necessary to their existing whistleblowing frameworks.

Initiative 4: Removing individuals from the industry for poor conduct

The measures to be adopted for this initiative have been revised since the original industry announcement in April 2016. The centrepiece of the initiative is now the more modest proposal of implementing a *Conduct Background Check Protocol*. As noted in Report 5, the ABA published the Protocol on 9 June 2017,¹³ with the major banks implementing this by 1 July 2017.

The FSU continues to have concerns with Initiative 4, including both the Protocol and an industry register. The FSU maintain that the Protocol is not an appropriate method to achieve the outcomes envisaged by the objective of this initiative as it lacks procedural fairness to job applicants and there is inconsistency across the banking industry about how the Protocol should be applied. The FSU considers

¹³ Available at <http://www.betterbanking.net.au/better-culture/stopping-poor-conduct/>

that the current application of the Protocol should be an interim measure pending the consideration of alternative approaches.

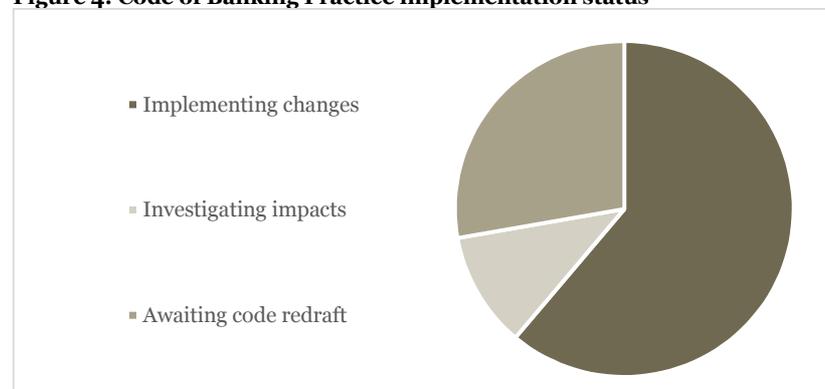
At the date of this report, all but two of the non-majors banks have now reported that the Protocol is in place. AMP Bank has advised that the Protocol will be formally adopted in January 2018. Citigroup, while it unreservedly encourages and supports the initiatives addressed by the Protocol, preferred an alternative approach due to its concerns over creating a conflict between the application of current Australian employment law and the self-regulatory Protocol as constructed. Nevertheless Citigroup has stated that it will continue its own background checks on potential employees.

Some banks have reported that benefits of the Protocol are already evident, with instances where prospective employees have returned an ‘affirmative response’ to one of the questions in the Protocol. The observation was also made that the Protocol is likely to be discouraging to those who have engaged in misconduct proceeding with their application.

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

As noted in Chapter 2, the industry is progressing the redraft of the Code of Banking Practice, in consideration of the recommendations by Mr Philip Khoury (‘the Khoury Review’). This work is to be completed by December 2017. A number of the participating banks have indicated that in the meantime they are making early moves to either assess the impact of potential changes to systems, processes and policies to more closely align to the recommendations of the Khoury Review, or have already initiated changes to align with the recommendations.

Figure 4: Code of Banking Practice implementation status



An example of how this change is underway was provided by ANZ Banking Group (ANZ) in Case Study D.

Case Study D: Making sure ANZ complies with the new Code of Banking Practice

ANZ has made an early start on the work necessary to comply with the new Code. In close collaboration with business units, an Industry Reform Implementation team has produced a business impact and change assessment document highlighting all impacts of the new Code (across the Khoury Review’s 99 recommendations) on ANZ systems, processes and people.

This analysis is now being used to develop implementation plans for all changes required across the business. The exercise will also identify other internal projects underway which create dependencies or are aligned initiatives. Accountability of individual recommendations will be assigned to senior staff to ensure required changes are made and progress will be tracked over coming months.

The Commonwealth Bank is also looking for opportunities to enhance the alignment of its services to the interests of customers, as noted in Case Study E.

Case Study E: Click-to-Close

A new initiative to enable our customers to instantly close their credit card accounts online.

As part of our ongoing work to give customers more control of their spending, we are continuing to invest in new features for credit card customers that are helping them manage their finances.

In August 2017, we introduced the latest innovation, called 'Click to Close', which makes it easy for customers to instantly cancel their credit cards online through NetBank and the CommBank app. If they have no funds owing, rather than go into a branch or call our service centres, customers can simply click on a button on their internet banking site or on their mobile App and instantly close their account. Since we launched 'Click to Close', approximately 3,500 customers have closed accounts using this service.

'Click to Close' builds on other measures Commonwealth Bank has implemented to provide our customers with greater convenience and control over their credit card accounts. In 2014, we introduced 'Lock, Block, Limit', which allows our customers to instantly change access to how their credit card accounts are used, such as locking ATM cash withdrawals or international spend. Then in 2016, for the first time, customers could choose to set their own spending caps to manage their monthly spend on their credit cards, receive instant transaction notifications and if required reduce their credit card limit – all available online and in real-time.

Collectively, these changes mean that our credit card customers can now go online to manage their end-to-end experience at any time, offering greater convenience and control over their financial wellbeing.

Commonwealth Bank continues to invest significantly to deliver innovative solutions for our customers. We believe that 'Click to Close' and our other credit card improvements will benefit our customers to be in control of their financial well-being and support our commitment to becoming Australia's most accessible bank.

Individual banks have advised that they are now actively considering the extent of changes, resource demands and potential training requirements to operationalise the revised Code.

Initiative 6: Supporting ASIC as a strong regulator

This initiative includes measures to support the proposed ASIC industry funding model, and to work with ASIC to enhance the current breach reporting framework.

As noted in Report 5, participating banks actively contributed to the ASIC Enforcement Review during its consultation phase, which closed on 12 May 2017. The banks are now awaiting the release of regulations, due by December 2017.

Following publication of the cost recovery framework by ASIC on 14 July 2017, banks are working through estimates of the cost increases. There are now no further actions required of the participating banks for this initiative, until publication of the revised ASIC breach reporting requirements.

Overall progress

The banking industry's package of initiatives contained a number of milestone steps associated with each of the measures within the implementation plan. While a number of these milestones required action from the industry, there were a number of specific milestones which were the responsibility of individual banks to implement.

The table below summarises the implementation status of each bank against each of the milestones to which they committed. In addition, it includes the status of banks' implementation of the Sedgwick Review recommendations, with a more detailed analysis to be provided in Report 7, to be released in January 2018.

Relevant Milestone	AMP Bank	Arab Bank	ANZ Bank	Bank Australia	Bank of Queensland	Bank of Sydney	Bendigo and Adelaide Bank	Citigroup Australia	Commonwealth Bank	HSBC	ING Direct	Macquarie Bank	ME Bank	MyState Bank	National Australia Bank	Qudos Bank	Rabobank	Rural Bank	Suncorp Group	Westpac	
Sedgwick recommendations: Changes made to remuneration structures (where necessary)	☺	-	☺	-	☺	☺	☺	☺	☺	☺	☺	☺	☺	☺	☺	☺	☺	☺	☺	☺	☺
Identification, development and publication of overarching principles on remuneration and incentives	☺	-	☺	✓	☺	☺	☺	☺	☺	☺	☺	✓	☺	☺	✓	☺	☺	☺	☺	☺	✓
Implementation of a customer advocate function in accordance with ABA guiding principles	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Implementation of any changes to ensure banks' systems and practices support client remediation programs	✓	☺	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	☺	✓	✓	✓	✓	✓	✓	✓	✓
Implementation of whistleblowing policies in accordance with ABA guiding principles	✓	✓	✓	✓	☺	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Adoption of the Conduct Background Check Protocol for bank employees	☺	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Key: ✓ Implementation complete ☺ Progressing implementation - Not progressing implementation/not applicable

This table is intended to provide a snapshot of the details of key milestones and deliverables by each participating bank. It goes some of the way to addressing the recommendations made by the ASBFEO in her report released in February 2017 for the Banking Reform Program to be strengthened by publishing individual bank implementation plans, including details of key milestones and deliverables.

As the participating banks seek to embed the initiatives following their initial implementation, they have advised of a variety of mechanisms being employed to align behaviours at all levels of their organisations. These include:

- Board and senior executive oversight;
- Leveraging the customer advocate function to identify and help address problem areas;
- Further instilling customer centricity, through “voice of the customer” roles in business decision making processes;
- Significant changes to remuneration and incentive programs (building on the Sedgwick Review recommendations);
- External stakeholder engagement and participation in cross-industry forums; and
- Internal communications and training to reinforce customer-centric behaviours and greater customer engagement.

These actions are encouraging, and also essential to a sustainable, long-term focus in building trust and confidence in banks, once the formal package of industry initiatives reaches its conclusion.

Positively too, a number of banks have commenced conversations on, and/or are undertaking surveys of organisational culture. To illustrate, AMP Bank has advised that it is currently conducting its second annual leadership culture survey which asks participants how their leaders act. The intention is for the bank to use the survey results to plan the work needed to continue to build on the bank's culture of integrity, help and performance.

3.3 Concluding remarks

I noted in my last report that, notwithstanding the good progress, there was still considerable work to be completed by the banks, particularly in relation to Initiative 1 (Reviewing product sales commissions and product based payments) and Initiative 5 (Review of the Code of Banking Practice). While this remains true, it is evident that overall continued solid progress is being made in these and other initiatives and it is well understood by the industry that these particular initiatives are critical to the success of the Banking Reform Program. The Edelman research highlighted that these initiatives have the potential to positively impact across all measures: trust, confidence and transparency.

Likewise, consultations with bank Chief Executive Officers continue to demonstrate to me high level of commitment to seeing the industry initiatives delivered because they are good for customers and good for business.

One area of particular interest for me is the opportunity for the benefits of these specific initiatives which largely have a "retail" flavour to be extended more broadly across the institutions. I am pleased to note that some banks, where retail banking is not the primary segment of their businesses, have reported aspects of the initiatives that they have adopted across their broader financial services operations. Leveraging opportunities to extend the benefits of the industry's initiatives have also been pursued by a number other participating banks to allow common policies to be adopted bank-wide, in order to reinforce aspects of their culture and performance expectations which ultimately provide a foundation for increased confidence by bank customers. Developments more broadly in the banking environment also emphasise the importance of reforms being cohesive and reinforce the high standards of individual and organisational performance.

Responses by Chief Executive Officers on steps being taken remain positive, with many drawing attention to individual initiatives designed to strengthening their banks performance and relationship with customers. This is encouraging and reflects well on the individual banks and the industry collectively.

In addition, a number of banks have also advised a range of initiatives being taken on bank values and culture, which include discussions led by the chief executives and their executive leadership groups, as well as surveys to assess the culture of their institutions in order to inform further steps that might be required. The review has also been informed that Chief Executive Officers continue to provide regular updates to their Boards, executive leadership groups, key functional areas and relevant stakeholders.

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Appendix A

Implementation plan as at 20 October 2017

Initiative	Objective	Measures / Implementation Steps	Implementation Phases ⁽¹⁾			Summary Deliverable ⁽¹⁾	Milestone Step ⁽¹⁾	Primary Responsibility
			Planning	Agreement of principles	Complete implementation			
1	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	Jul-16	Mar-17	Mar-17	Independent review report on remuneration (*Timing contingent on ASIC review on mortgage broking)	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
		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 b) Identification and development of overarching principles by each bank ⁽²⁾	Banks 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 b) Preparation of any documentation necessary to make any changes (such as submissions or applications for regulatory approvals) c) Regulatory approvals (where necessary) provided for banks to be able to make changes d) Banks change remuneration structures (where necessary) and communication of how and why these changes have been made	ABA/Industry ABA/Industry Regulators Banks

Legend:



R1 R2 R3 R4 R5 R6

Reported status

Status key:

> On target

> On alert for slippage against plan

> Adjustment required to original plan

> Next phase reliant on government

Implementation plan as at 20 October 2017

Initiative	Objective	Measures / Implementation Steps	Implementation Phases ⁽¹⁾			Summary Deliverable ⁽¹⁾	Milestone Step ⁽¹⁾	Primary Responsibility
			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	Jul16 Complete	Dec-16 Complete	Jun-17 Complete	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 Complete	Dec-16 Complete	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 Complete	Jul-16 Complete	Sep-16 Complete	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 Complete	Mar-17 Complete	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 e) Preparation of consensus submission to the Government f) Possible introduction of legislation to implement a scheme	ABA/Industry ABA/Industry ABA/Industry ABA ABA Government



R1 R2 R3 R4 R5 R6
Reported status

Status key:

- > C in target
- > C in alert for slippage against plan
- > Adjustment required to original plan
- > Next phase reliant on government

Implementation plan as at 20 October 2017

Initiative	Objective	Measures / Implementation Steps	Implementation Phases ⁽¹⁾			Summary Deliverable ⁽¹⁾	Milestone Step ⁽¹⁾	Primary Responsibility		
			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	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 or mechanism 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.	Sep-16	Jun-17	Dec-17	Completion of position paper on an industry register Implementation of Conduct Background Check Protocol Industry register established ⁽³⁾ (*Contingent on introduction of supporting statutory underpinning by Government)	a) Identification of possible model for industry register ⁽³⁾ b) Preparation of industry position c) Coordination of engagement and consensus building across stakeholders d) Implementation of Conduct Background Check Protocol (from 1 July 2017 (major banks) and 1 October 2017 (non-major banks)) e) Demonstrate industry engagement with Federal Government in support of a statutory register (end Dec 2017) ⁽³⁾ f) Implement statutory register if introduced by Government ⁽³⁾	ABA/Industry ABA/Industry ABA/Industry ABA/Industry ABA/Industry
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 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	Jun-17	Dec-17 ⁽⁴⁾	TBC	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

Legend:

R1 R2 R3 R4 R5 R6
Reported status

- Status key:**
 On target
 On alert for slippage against plan
 Adjustment required to original plan
 Next phase reliant on government

Implementation plan as at 20 October 2017

Initiative	Objective	Measures / Implementation Steps	Implementation Phases ⁽¹⁾			Summary Deliverable ⁽¹⁾	Milestone Step ⁽¹⁾	Primary Responsibility
			Planning	Agreement of principles	Complete implementation			
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 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
		Complete	Complete	Complete				
6 Supporting ASIC as a strong regulator	Demonstrate banks' commitment to a well-regulated banking and financial services industry	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
		Complete	Complete					

Legend:



R1 R2 R3 R4 R5 R6
Reported status

Status key:

- > On target
- > On alert for slippage against plan
- > Adjustment required to original plan
- > Next phase reliant on government

Footnotes:

1. Assessment based on advice from the ABA and/or entity/entities with primary responsibility for implementation.
2. As noted in Section 2.3, the milestone steps for this initiative have been adjusted
3. As noted in Section 2.3, the ABA has advised that it is not proceeding with implementation of the industry register at this time.
4. Previously this item has been 'TBC'. Accordingly only chevrons for R5 and R6 have now been added

Appendix B

Participant banks

The following member banks of the ABA¹⁴ have confirmed their participation in the package of initiatives:

- AMP Bank¹⁵
- 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
- HSBC
- ING Direct
- Macquarie Bank
- ME Bank
- MyState Bank
- National Australia Bank
- Qudos Bank
- Rabobank
- Rural Bank
- Suncorp Group
- Westpac Banking Corporation

¹⁴ Defence Bank was a participating bank until 30 June 2017 however has since withdrawn from membership of the ABA

¹⁵ AMP Bank has advised its commitment to the package of initiatives is subject to relevance to the bank and alignment with AMP Group.

Appendix C

Stakeholder consultations undertaken

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

Banks:

- AMP Bank
- Arab Bank Australia
- Australia and New Zealand Banking Group
- Bank Australia
- Bank of Queensland
- Bank of Sydney
- Bendigo and Adelaide Bank (including Rural Bank)
- Citigroup Australia
- Commonwealth Bank of Australia
- 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 Prudential Regulation Authority
- Australian Small Business and Family Enterprise Ombudsman
- Edelman Intelligence
- Finance Sector Union

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	Completed			x			
Senate Economic References Committee	Consumer protection in the banking, insurance and financial sector	Mar 2017	May 2018		x			x	
Senate Select Committee on Lending to Primary Production Customers	Regulation and practices of financial institutions in relation to primary production industries	May 2017	Oct 2017		x				
ASBFEO	Small Business Loans Inquiry ('Carnell Inquiry')	Dec 2016	Completed		x			x	
ASIC	Review of mortgage brokers remuneration structures	Dec 2016	Completed	x					
Treasury	Review of the financial system external dispute resolution framework ('Ramsay Review')	Oct 2016	Late 2017		x			x	
Treasury	ASIC Enforcement Review	Ongoing	Dec 2017					x	x
Treasury	ASIC Industry Funding Model	Jun 2017	Completed						x
Treasury	Tax and corporate whistleblowing	Feb 2017	Ongoing			x			
Treasury	Product design and distribution obligation and Product intervention power	Mar 2017	Ongoing						x

Note: This table includes the major reviews impacting the banking industry package of initiatives. Other reviews are underway by ASIC, APRA and the Government that may also have some effect on the package of initiatives.

Appendix E

Glossary and abbreviations

Term	Definition
ABA	Australian Bankers' Association
AFCA	Australian Financial Complaints Authority
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
Khoury Review	Code of Banking Practice – Independent Review 2016
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'
Sedgwick Review	Retail Banking Remuneration Review

