

Independent governance expert report

Australian banking industry:
Package of initiatives

Report 8

Ian McPhee AO PSM

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

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Executive summary

The Australian banking industry committed to a reform program in April 2016 to protect consumer interests, increase transparency and accountability, and importantly to build trust and confidence in banks (the Banking Reform Program). While the banking industry has not been alone in suffering from a trust deficit,¹ it recognised the need to lift its performance in the eyes of customers and key stakeholders, including government, given concerns with banks' conduct and culture. Accordingly, the Australian Banking Association (ABA)² and 21 participating member banks³ agreed to implement six initiatives to deliver on the above-mentioned goals and improve the industry's standing in the eyes of the community.

The initiatives have focussed on retail banking and included:

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

These initiatives were supported by a range of measures designed to deliver on the goals of the Banking Reform Program. During the two years since the industry announcement, there have been some changes to the industry's plans in light of better information or new developments. The main changes involved varying the objective of Initiative 4 (Removing individuals from the industry for poor conduct) to take into account legal advice and feedback from stakeholders on the goal of the initiative, and amendments to several of the supporting measures to reflect changes occurring through regulatory or other developments.⁴ But in the main, the industry has stayed the course with its commitments.

As a consequence, significant changes have been introduced by the Australian banks in the last two years that will benefit customers. Those changes that are likely to have the most significant impact on the bank-customer relationship are:

- The removal of, or amendment to, sales commissions and product based payments, to strengthen alignment to customer outcomes;
- The substantial revision to the Code of Banking Practice to ensure the Code adequately covers the expected standards of good banking practice when dealing with individual and small business customers and, when applicable, their guarantors; and
- The establishment of dedicated customer advocates to give individual retail and small business customers a stronger voice, and facilitate the more efficient resolution of issues for these customers.

¹ The 2017 Trust Barometer published by Edelman revealed 'that trust is in crisis around the world', with trust in business, government, NGOs and media declining. See further at <https://www.edelman.com/trust2017/>

² The ABA has changed its name from the Australian Bankers' Association with effect from January 2018.

³ Subsequently reduced to 20 banks due to Defence Bank's decision to withdraw from the ABA.

⁴ Further information on changes to the implementation plan is contained in Chapter 3 and Appendix B.

The industry has been open to adopting new or revised approaches following feedback received, and importantly has introduced a survey to assess perceptions of the Banking Reform Program and track the success of the reform program as it has been implemented and progressed. The early results, based on consumer surveys, confirmed customers have fairly low levels of trust, confidence and transparency in the banking industry. However, the research also identified that 53% of those surveyed expressed trust in their main bank, compared with 31% for the banking industry.⁵ Although some improvements to indicators were noted in the second wave of surveys,⁶ there is still considerably more to be done to turn around customer sentiment about the industry. Most importantly, the results provide a baseline to assess the collective industry performance as the measures are implemented by each participating bank.

Individual banks, particularly the major banks, have provided a range of case studies during the course of my review to show different dimensions of the way they are changing their policies and approaches for the benefit of customers. By sharing these case studies, the banks concerned have shown that the particular measures are not being interpreted narrowly. They have also shown a willingness to assist the industry by allowing others to leverage from their experience. In addition, the ABA has played an effective role in both the governance arrangements, and coordinating industry and stakeholder forums to allow the banks to share their experiences and progress the implementation of the reform program.

This commitment to work together across the industry towards the common goal of rebuilding the trust and confidence of customers has been an enabler of industry-wide improvements. It has also demonstrated the benefits of the banks taking advantage of opportunities to collaborate, where appropriate, to achieve good customer outcomes. Nevertheless, some stakeholders remain sceptical about the manner in which some measures are being implemented, underlining the importance of the industry placing a premium on customer-centric responses, ongoing public reporting on the implementation and impact of the initiatives, and transparency in delivering on its goals.

The Chief Executive Officers of the banks consulted during the course of this review, with support from their Boards, have backed the initiatives and their importance in better serving their customers and rebuilding their standing in the community. In addition, some institutions have taken steps to leverage the initiatives across their organisations, and beyond their retail banking businesses. Further, the importance of banks' giving greater attention to customers' interests has been increasingly evident in public comments by bank Chairs and Chief Executive Officers.

With two years now elapsed since the announcement of the initiatives to improve customers outcomes, banks have reported that the industry-led work for 11 of the 13 planned measures has been completed, with three of those 11 measures still dependent on statutory underpinnings for finalisation. The two measures where industry-led work is continuing relate to: implementation of individual bank policies on remuneration and incentives to adopt the Sedgwick Review recommendations; and changes to bank processes to reflect changes required by the new Banking Code of Practice.

⁵ Refer to https://www.ausbanking.org.au/images/uploads/MediaReleases/ABA_Banking_Reform_Program_Report_August_2017.pdf

⁶ Refer to Report 7 available at <https://www.betterbanking.net.au/wp-content/uploads/2018/01/McPhee-Report-7.pdf>

The implementation period for individual banks is expected to take a further two to three years⁷ in recognition of the changes required to bank policies and systems, training requirements and the need to engage with employees and other stakeholders as appropriate. Positively too, there has been recognition by some banks that further investment is required to reinforce bank values and culture. The leadership group have to show the way here by engaging in conversations with employees on the values and behaviours expected within their bank in delivering services consistent with statutory obligations and bank policies.

It is also in the interests of customers for them to be alert to their responsibilities, as well as to opportunities for their bank(s) to better tailor arrangements to suit their individual circumstances. It never does any harm for customers to ask questions about interest rates, charges, or other applicable terms and conditions if these are unclear or seem to be lagging those offered by other institutions. Increasingly, customers can be expected to be looking for greater transparency and understanding of value in the services provided by the banking industry.

The developments to improve the industry's customer focus have been timely against the background of the establishment of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the recurring discourse in the community about the social licence granted to financial institutions and the expectations that arise from this, and the more general conversation today about corporate social responsibility. The importance of trust and confidence is now on the radar of each of the participating banks, and obviously needs to feature in discussions on purpose and performance going forward.

Against this background, it is the outcomes expected of the industry's initiatives that matter most, as flagged in earlier reports, and there is still work to be done here as shown by the consumer surveys undertaken for the industry. While suitable bank policies and processes are without doubt important, the role of Boards, Chief Executive Officers⁸ and other senior executives in showing the way and shaping the culture of individual banks is essential to build confidence and trust in the banks. The stronger focus on customers and their individual circumstances needs to become an integral part of the way the banks do business.

This report contains one recommendation for the ABA, on behalf of the banking industry, to commit to the development and introduction of a policy which would provide for individual banks to publish appropriate performance indicators and commentary to give greater transparency to their success in achieving the industry's goals of building trust and confidence. This recommendation was accepted by the ABA and the industry. In addition, the industry has committed to finalise measures of effectiveness of the customer advocate function; and to continue to work with the Combined Industry Forum (CIF) to reach a position on conflicted remuneration structures, in order for the participating banks to implement the Sedgwick Review recommendations by the 2020 deadline.

⁷ Predominately, this reflects the time established by the Sedgwick Review to implement changes to remuneration and incentives for retail banking operations no later than the performance cycle that begins in 2020.

⁸ It is noteworthy that the 2018 Edelman survey highlights the critical importance of the Chief Executive Officers in building trust, with nearly 7 in 10 respondents saying that building trust is the number one job for Chief Executive Officers – see further at http://cms.edelman.com/sites/default/files/2018-2/2018_Edelman_TrustBarometer_Executive_Summary_Jan.pdf

Overall, the industry's commitment to the package of initiatives to protect consumer interests, increase transparency and accountability, and importantly to build trust and confidence in banks has been positive, well supported and worthwhile. The reform program now needs to be embedded in the interests of bank customers, individual banks and general confidence in the banking sector. Critical to success will be banks 'doing the right thing' when things go wrong, and being transparent in reporting their progress in rebuilding customers' trust and confidence. Responsibility for providing the necessary leadership and delivering on the reform program now largely rests with the Chief Executive Officer of each bank and their executive teams. Each layer of management has a key responsibility here to convey, and reinforce, the organisation's expectations.

Good progress has been made to date on the reform program and, in a rapidly changing world, it will be important for momentum to be maintained if the industry's goals are to be achieved.

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1 Introduction

1.1 Industry initiatives to strengthen community trust

On 21 April 2016, the banking industry announced a package of six initiatives to protect consumer interests, increase transparency and accountability, and build trust and confidence in banks.⁹

The ABA advised that in identifying and settling the initiatives in the reform program, the senior industry leadership acknowledged the need for the industry to respond to political and regulatory concerns and community expectations and to address concerns with banks' conduct and culture. The ABA also noted that this was against the background of significant attention on the role of banks in society, and criticism about the actual or perceived imbalance of power and/or information asymmetry between banks and customers, following the global financial crisis.

The six initiatives, and their associated objectives,¹⁰ 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.

⁹ Announced in the ABA media release available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/banks-act-to-strengthen-community-trust>

¹⁰ Appendix B summaries amendments made to the initiatives over the course of the review.

Twenty¹¹ of the ABA member banks have confirmed their active involvement in the package of initiatives, and are listed in Appendix C.

1.2 Background to the independent review

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.¹² It has been agreed subsequently that the period covered by my quarterly reports should be extended to report on the first two years of implementation. 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.

1.3 Reports of the independent review

My first report in the series was issued on 14 July 2016, three months following the industry's announcement of the package of initiative to build trust and confidence in banks. Subsequent reports have been issued on a quarterly basis, with this report being the eighth and final report in the series.

The banking industry deserves credit for its willingness to implement a transparent oversight process to monitor its implementation of the various initiatives. My reports have benefited greatly from the contribution of many, including those within the banking industry, Mr Stephen Sedgwick AO and Mr Philip Khoury who conducted independent reviews for the industry, industry regulators, key stakeholder bodies, and the valuable support of PwC Australia. As this is my final report, I wish to express my appreciation for the time and insights of all of those who have contributed to this independent review on progress of the industry in implementing its package of initiatives.

¹¹ Initially there were 21 participating banks. Defence Bank was a participating bank until 30 June 2017 however has since withdrawn from membership of the ABA.

¹² Available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/letter-of-engagement>

2 Synopsis of earlier reports

2.1 Introduction

During the course of my review, substantial progress has been made in the development and implementation of the package of the industry's six initiatives. This has required agreement by the participating banks on the various measures intended to deliver on the goals of the initiatives, their design and their implementation timetable. During key stages, consultation has taken place with stakeholder groups to inform both policy and implementation decisions.

As this report is the last in this series, this chapter looks back on the summary comments made in each of my seven earlier reports that have reported on the industry's progress in pursuing the initiatives. The report also makes reference to the stronger emphasis given to culture within the banks. This became increasingly evident as being a necessary complement to the initiatives designed to achieve better customer outcomes.

2.2 Observations from quarterly reports

Report 1 – July 2016

This first report recognised that community standards and expectations have changed over time, as have the services provided by the banking industry. Nevertheless, in this period of significant change in the banking industry, the interests of customers had not always received sufficient attention, a position recognised by the Australian banks with the industry's announcement on 21 April 2016 of the six initiatives to help build trust and improve customer outcomes.

At the outset of the reform program announced by the banking industry, the objectives of the package of initiatives were clear but it was noted that delivering on them would not be without challenges. Determining the changes required to existing practices, reaching agreement within the industry, updating bank policies and reinforcing the behaviours expected would be a test for the industry, most particularly the leadership of each bank. It was observed that embedding new approaches would require time, an ongoing management focus, and effective engagement with staff at all levels within the banks to improve on the industry's performance in protecting consumer interests.

This first report was necessarily focussed on progress to establish the various independent reviews as part of Initiative 1 (Reviewing product sales commissions and product based payments) and Initiative 5 (Review of the Code of Banking Practice), with subsequent reports to encompass indicators of success proposed by the banks and feedback from stakeholders in order to ascertain the extent to which the measures were addressing the fundamental objectives set out by the industry.

Report 1 observed that the ABA's implementation plan anticipated substantial completion of the various measures by December 2017; however the full realisation of benefits would require a sustained management focus by the banking industry and inevitably take longer for the benefits to be fully apparent to consumers.

Report 2 – October 2016

Report 2 noted that at that time, in order to advance the objectives of each of the six initiatives, the collective action being taken by the industry had a primary focus on settling policy positions to advance the objectives of each of the initiatives. Against this background it was encouraging to see the steps being taken by the industry and good progress being made within the first six months of the then planned 18 month period for the development of the various measures.

The report also drew attention to work being undertaken by the industry to identify success (or outcome) measures, over and above achievement of the nominated milestones for each of the measures. The report recognised that it was important that the industry and individual banks are able to demonstrate progress towards achieving the goals of the various initiatives in a tangible way.

Also encouraging was 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 demonstrated 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 competitive positioning by the banks. Significantly, the steps being taken by individual banks would also inform the collective industry position.

It was also apparent that the words of the Chief Executive Officers were being backed with actions in individual banks. Nevertheless, Report 2 noted that it would 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.

In addition, the report observed that bringing about the necessary changes would 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. Further, the report recognised that the clarity by which the industry is able to demonstrate better outcomes over time, will be critical to its success.

Report 3 – January 2017

At the time of publication of the third report, the performance of the industry in achieving its milestones steps had been mixed when viewed in terms of the original schedule for individual initiatives. The signs of progress were most positive where the industry had control over the design and implementation of the measures that contribute to the initiatives. In circumstances where other parties carried the primary responsibility for progressing matters necessary to give effect to particular measures, it was evident that, despite consulting with third parties, optimistic assessments were made in estimating the time required by those parties to advance consideration of these matters.

The report recognised however that it is the outcomes that matter most and it was important for the industry to maintain both its focus and its momentum to deliver on its commitments, even if strategies were varied. Stakeholders consulted were generally supportive of the steps being taken but, at the same time, were quite reasonably withholding further judgment until there was greater clarity around positions that the industry intended to adopt to respond to existing concerns.

Nevertheless, it was encouraging to see the banks continuing to take steps, including through the use of pilot studies, which were consistent with the objectives of the industry initiatives and overall purpose of the reform program.

Report 3 also included various case studies provided by participating banks, which demonstrated, in a very tangible way, the commitment by individual banks to improve performance by varying existing policies and/or piloting new approaches, consistent with the industry objectives. The case studies also demonstrated the multi-faceted nature of some of the challenges facing the industry, and how pilot approaches can inform longer-term solutions and encourage banks more broadly to review opportunities for improvement consistent with the industry objectives.

At that time, the banks and the ABA also agreed to develop performance indicators that measure trust and confidence at an aggregate level, with ties to each of the underlying initiatives.

Report 4 – April 2017

Report 4 noted the completion of significant independent reviews of both the Code of Banking Practice (Khoury Review) and the independent review of product sales commissions and product based payments (Sedgwick Review), and with their completion, the considerable improvement in the implementation status. It was observed that these reviews were extensive and based on broad consultation, laying solid foundations for the industry to consider changes to current practices. The report also noted an emerging theme of the importance of initiatives in relation to small and medium business so that the program is balanced to include such initiatives in addition to those in relation to individual consumers.

The report observed that as the industry measures were being developed, individual banks had also been gearing up to manage their policy response to the industry positions, and to keep customers, staff and other stakeholders informed of developments. Some banks had taken steps to adopt proposals aligned with the industry initiatives ahead of the industry announcing positions. Significantly, a number of banks foreshadowed the need to revise their service commitment to customers in the light of the industry's initiatives. This was a very tangible way for banks to exhibit the strength of their customer focus; and also provide customers some leverage to remind banks of their commitment to them, should this be required.

The report also observed that another distinguishing element of this reform program was that a number of components had some reliance on statutory underpinnings. The interdependence between industry initiatives, government policy and regulatory responsibilities generated a number of learnings which the industry reflected in revisions to the implementation plan, but continued to highlight the dynamic environment of the banking industry.

Consumer research commissioned by the ABA indicated that there was a low community awareness about the industry's actions to respond to customer concerns. Subsequently, the ABA initiated a campaign to raise awareness with stakeholders and the wider community.

Twelve months into the industry's package of initiatives, it was clear that many in the community still needed to be persuaded about the commitment of the banks to make real change and move the dial on protecting consumer interests, increasing transparency and accountability, and ultimately building trust and confidence in banks.

Consultations during the quarter with a range of bank Chief Executive Officers had shown a high level of commitment to seeing the industry initiatives delivered because they are good for customers and also good for business.

Report 5 – July 2017

The report observed that implementation of the initiatives continued against the background of close political and public scrutiny of the role of banks in Australia but that, overall, good progress had been made by the industry in advancing its reform program. While there was still a need to see more rubber on the road, it was evident that there were early signs of the reforms starting to gain traction. The focus going forward would increasingly be on the efforts of individual banks to embed the reform measures to deliver on the goals of the six industry initiatives.

To that time, the industry had been focused on putting in place the industry-level reporting framework and had not been explicit about its intentions around public reporting by individual banks against the performance indicators developed to measure trust and confidence over time; and the report observed that it would be desirable for the industry to be clear on its position going forward, and even better if the major banks were to show the way in reporting their results, with other banks considering such reporting where relevant and reliable information is attainable in a cost-effective manner. Most expected the early survey results to show room for improvement early on but the report commented that the industry needed to continue to back itself on the initiatives, move forward with confidence, and in this way regain public trust and confidence.

The report recognised that the proposed amendments to the Code of Banking Practice would provide a higher degree of protection for consumers; the full benefits of this only accruing if consumers recognise their responsibility to be diligent in informing themselves of, and protecting, their interests. It also observed that a wide understanding of the bank-customer relationship was essential to many of the outcomes the industry was pursuing, particularly in making engagement by customers easier and through measures being taken by the banks to improve transparency and confidence.

Report 6 – October 2017

By October 2017, the focus of implementation of the package of initiatives had increasingly moved from the development of the various measures by the industry as a whole to the implementation of those measures by individual banks; with these banks reporting for the most part good progress on their implementation programs.

Three of the six initiatives had 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 2017, 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 had published their overarching principles on remuneration and incentives ahead of the December 2017 deadline.

Reference was made in this report to the review of the implementation plan whereby the ABA confirmed at this stage it would not be preparing industry-level guiding principles on remuneration separate to those published by individual banks, as initially envisaged. Additionally, with the implementation of the *Conduct Background Check Protocol* for bank employees, the industry had 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).

Beyond the formal measures that the industry committed to, special mention was made of the publication on 28 August 2017 of independent banking industry research on consumer views in relation to the core objectives of this program – building trust, confidence and transparency. Of note, the research showed 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.

Report 6 observed that publication of consumer views on trust, confidence and transparency in banks was unprecedented for the industry, not least because of the commitment to publish updated data on an ongoing basis from January 2018. Nevertheless, the report also observed that the development and presentation of bank-level indicators of trust and confidence had not been strongly supported within the industry – leaving the nature of any bank-level reporting to rest with individual banks.

It was noted that the Chief Executive Officers were 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 had 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.

Report 7 – 18 January 2018

By the time Report 7 was issued, six of the 13 planned measures designed to deliver on the industry's initiatives had been completed, an additional four measures where industry-led work was complete but final implementation was dependent on statutory underpinnings, and a further three measures remained outstanding. Of the three outstanding measures, the one relating to the publication by each bank of overarching principles of remuneration and incentives required adjustment to the original implementation plan as not all banks had published their overarching principles by the 31 December deadline. The other two measures relate to implementation of individual bank policies on remuneration and incentives, and the introduction of the revised Code of Banking Practice. The initiatives to which these latter measures relate have involved significant independent reviews, followed by further bank and stakeholder consultation, analysis and development, and will take time to embed once individual bank policies have been established.

In addition to the formal steps identified in its implementation plan for the six initiatives, the industry has committed to undertake surveys of customers and employees to assess perceptions of the reform program and track the success of the program as it is implemented and progressed; the intention is for such surveys to be conducted periodically to assess progress and identify further areas for reform.

The Edelman Intelligence report of January 2018 noted that six months on from their initial report in June 2017, consumers' perceptions towards the banking industry were improving. The later research showed consumers' trust in their main bank had increased by 3 percentage points to 56% since June 2017, whereas trust in the industry had increased by 1 percentage point to 32%.¹³ Some of the leading banks were also publishing information on their Net Promoter Scores as a proxy performance indicator of their success in improving the trust and confidence of their customers. Other than the four major banks, only one other bank had

¹³ Available at <http://www.bankers.asn.au/media/research-papers/>

participated in the Edelman Intelligence survey of employees; the industry had yet to determine its longer term position on reporting of employee survey results.

The report observed that it had been evident that, with the shift of the focus of the reforms to the implementation of measures by individual banks, the importance of leadership by Chief Executive Officers and their leadership teams in bringing about the required changes has been understood. It was apparent that banks were often taking a wider view of the reform measures where this would be beneficial for their organisation and its goals. Some banks have advised of engagement with staff by their leadership teams to assist the transition and to deliver on the stronger customer orientation evident in the reform measures. It was also apparent that some Boards were giving explicit sanction and support to the repositioning of the importance of a strong customer focus going forward.

While there was still more to be done by the industry to embed the initiatives, dispel some lingering concerns about the industry's bona fides in relation to some measures and achieve better outcomes in the eyes of customers, it had been very worthwhile to see the improvements introduced, or in prospect, designed to lift the industry's performance. The early signs were showing positive results but the report observed the importance of the industry making every post a winner in terms of the commitments it has made. The corollary was that there should be no back-sliding in terms of commitments made or performance standards expected.

The longer-term goal inherent in the various industry initiatives, and statements made in support of the initiatives by industry leaders, is the importance of embedding the central focus on customers in the way business is done within the culture of each bank. This needs to be viewed as an enduring goal for each bank, and supported by strategies responsive to the times and reinforced by those in key leadership roles on an ongoing basis. This is an issue that should be visited by the leadership team of each bank and the ABA periodically to assess current strategies and approaches.

Positively, the leading banks have recognised this, revising strategies to recognise that they are a 'service business, not a product business' meaning their 'core purpose is to help customers achieve what is important to them'. Or as succinctly stated by one of the major banks: "We are committed to building a culture that enables our people to deliver positive outcomes for our customers and that rewards people for how they live our values not just what they have achieved.". This enhanced focus on building a stronger customer culture can only be good for customers, and positive for the industry in the long run.

2.3 Concluding remarks

Each of my reports referred to in this chapter, together with this report, have shown the industry's progress in pursuing the initiatives it committed to. These reports have highlighted changes made that will contribute to better customer outcomes as well as some issues still requiring further consideration or attention.

The scale and complexities of the banking industry mean that inevitably there will continue to be occasion when things go wrong. The Banking Reform Program has been designed to provide customers and employees with better channels to raise any concerns. The stronger focus on culture within the banks, which became increasingly evident as the Banking Reform Program was rolled out, and which has been referred to in Report 6 and Report 7 above, is a necessary complement to the initiatives to achieve better customer outcomes.

This sentiment was captured early in the piece by the Chief Executive Officer of National Australia Bank (NAB) when he wrote to staff at the time of the announcement of the reform program.

“Our commitment to our customers is to make it easier to do business with us – to make sure that our customers have access to the right products and services and that when things go wrong it’s easier to fix....to make sure that no matter what bank you bank with, customers are safe in the knowledge that each bank puts their customers first.

We believe that our customers deserve the peace of mind that our employees are rewarded for recommending the right products and services for the customer. We intend to strengthen the alignment of remuneration and incentives to customer outcomes. We will work with regulators to implement changes and, where necessary, seek regulatory approval and legislative reform.

We also know that if we get it wrong, we have to make it easier for our customers to have a mistake fixed. We believe that the key to this is greater transparency around our processes.

Culture is important to us. At NAB we are focused on ensuring that our culture is values driven and focused on doing the right thing”

Statements of this kind set the tone required to deliver on the industry’s commitments, and benefit from periodic reinforcement so that the goals are clearly understood irrespective of the other priorities which will necessarily need to be managed by each of the banks.

3 Implementation status

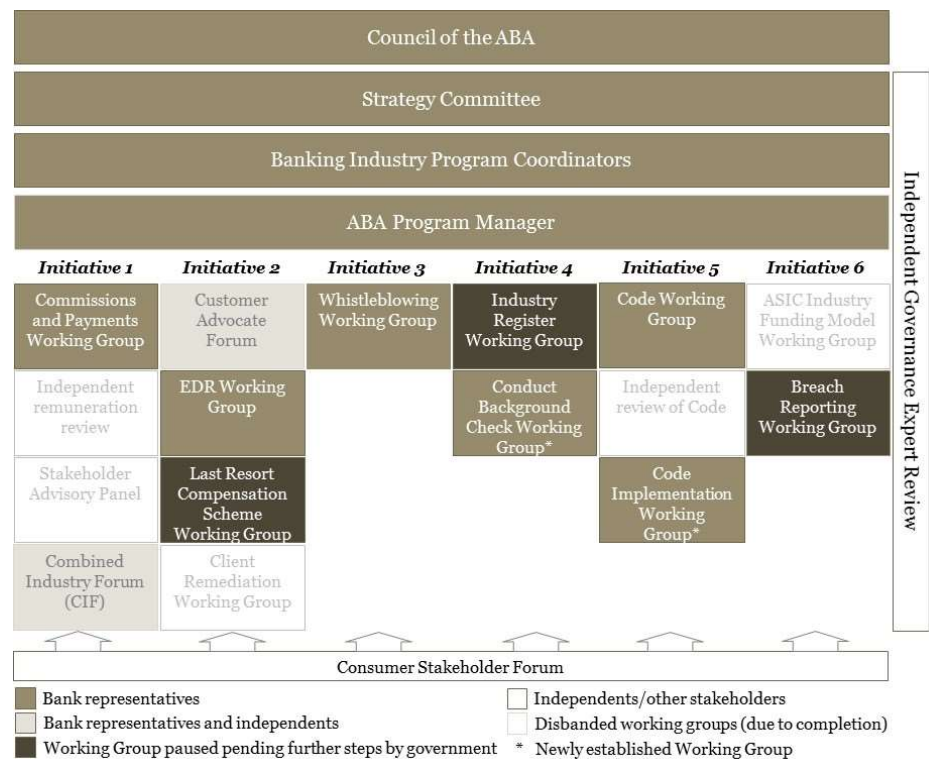
3.1 Introduction

The package of initiatives is based on measures that have involved the development of industry positions or otherwise have required an industry-level response. The industry-level measures were required to develop the principles, policies and/or frameworks to guide the industry and individual banks in tailoring approaches to achieve the industry objectives. This chapter summarises the implementation status of both industry-level measures and the progress made by individual banks, as well as outlining the governance arrangements and the evolution of the industry's implementation plan.

In addition to reporting on the status of the various initiatives, this chapter also summarises developments in the publication of performance indicators against which the success of the initiatives can be evaluated by the industry, individual banks and stakeholders.

3.2 Governance arrangements

Sound governance arrangements are key to ensuring 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. The governance structure and framework that has been put in place to oversight the implementation of the package of initiatives is outlined below, with further detail on each element included in Appendix D.



3.3 The implementation plan

Under each of the industry's six initiatives a number of more detailed measures had been developed, together with milestones for completion. This formed the basis for the industry's implementation plan, which is included in Appendix A.

It was acknowledged from the outset that, as is to be expected in a dynamic industry, some of the original elements in the implementation plan would need to be adapted to address new information, issues arising from the development of particular measures, or external review recommendations. While elements of the implementation plan have evolved, it has largely remained consistent with the plan originally specified.

Appendix B sets out the amendments to the initiatives from the original implementation plan over the past two years; the most significant amendments are:

- Initiative 1 (Reviewing product sales commissions and product based payments): Following publication of the final report of the Sedgwick Review, the original implementation plan envisaged the development of industry-level guiding principles to assist banks develop their own overarching principles on remuneration and incentives. However the ABA revised the implementation plan to remove this step.¹⁴ While I considered this a missed opportunity for the industry to demonstrate strong leadership in an area which has traditionally had a high profile,¹⁵ this did not alter the industry's commitment for each bank to develop and publish its own overarching principles on remuneration and incentives;
- Initiative 4 (Removing individuals from the industry for poor conduct): The implementation plan originally specified that an industry register would be established. However acknowledging the potential legal and regulatory barriers, this was amended to include provision for other mechanisms to address the revised objective of this initiative¹⁶ (i.e., the *Conduct Background Check Protocol* for bank employees). In addition, the ABA advised that feedback from stakeholders and through legal advice it became clear that Initiative 4 was ultimately about improving practices and promoting good conduct and ethical behaviour, not just about dealing with 'bad apples'. The objective of this initiative was modified to reflect this revised position. These changes reflected a degree of pragmatism in the face of challenges in delivering on the original goal, as well as the changing external environment;¹⁵ and
- Recognition of reliance on government: A number of the original measures have a degree of reliance on statutory underpinning for implementation – this was not fully appreciated by the industry at the time the initiatives were framed.¹⁷ For those measures where the industry has completed its planned actions, and it is clear that completion relies on legislation or other regulatory change outside of the industry's control, this has been noted in the implementation plan.

¹⁴ The ABA advised that the Sedgwick Review recommendations, coupled with the work of the Combined Industry Forum (CIF) specifically looking at changes to remuneration structures in the mortgage industry, was sufficient to achieve the outcome of remuneration structures better aligned to achieving good customer outcomes.

¹⁵ Refer to Section 2.3 of Report 6 for further information.

¹⁶ Refer to Appendix B for the amendment to the objective for Initiative 4.

¹⁷ Furthermore, the ABA has advised that since the announcement of the Banking Reform Program, the Federal Government has also taken steps to review and/or propose measures to achieve a broader application of particular measures across all financial services providers, which the industry believes would be a more optimal outcome for consumers with similar standards for banks and non-bank providers.

The revised implementation plan provides greater clarity with respect to the industry's current expectations, particularly the measures for delivering the objectives of the various initiatives and the anticipated completion dates for key milestones.

3.4 Update on progress of initiatives

Initiative 1: Reviewing product sales commissions and product based payments

The industry committed to review product sales commissions and product based payments in order to strengthen the alignment of remuneration and incentives with good customer outcomes. The independent review conducted by Mr Stephen Sedgwick AO (Sedgwick Review)¹⁸ outlined 21 recommendations for banks and specified that those recommendations be adopted through to the performance period commencing in the year 2020. All participating banks committed to implement the Sedgwick Review recommendations, recognising this would also require significant work in collaboration with the mortgage broking industry and other third parties.

The status of participating banks' adoption of the Sedgwick Review recommendations, as reported to me by the bank Chief Executive Officers, is outlined in Figure 2 on the following page.¹⁹ At the time of preparation of this report, the Bank of Sydney had not provided a submission, therefore the bank's status in implementing the recommendations of the Sedgwick Review reflects its reported position at 18 January 2018.

¹⁸ 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/>

¹⁹ The status is based on self-assessment by individual banks. Some banks have advised that they have taken a conservative approach in making their assessment at this time.

Figure 2: Sedgwick Review – External reporting framework

Sedgwick Recommendation²⁰	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
Variable rewards payments to retail bank staff	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Retail bank staff scorecards	●	●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Governance – performance management	●	●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Governance – culture and conduct	●	●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Governance – senior executives and mid-level executives	●	●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Third party remuneration – governance	●	●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Third party remuneration – incentives	●	●	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●	●

Key:

- Full alignment to Sedgwick Review recommendations
- Substantial alignment / implementation well progressed
- Some alignment / implementation progressed
- Arrangements not aligned - planning and/or some implementation progressed
- Arrangements not aligned - work not started
- Recommendation not applicable

Based on the external reporting framework above, good progress continues to be made by the banks in implementing the Sedgwick Review recommendations, with one bank reporting full alignment in the current quarter. Consistent with my previous report, the area that is least progressed relates to third party remuneration, reflecting the lead time required firstly to arrive at the principles agreed by the Combined Industry Forum (CIF)²¹ and then operationalisation and implementation of those principles. Reflecting commitments made through the CIF, some banks have reported ceasing particular arrangements, including volume bonus and campaign based bonus commissions with third party channels, reflecting concerns over potentially conflicted remuneration structures. Some banks have also advised that they are making changes to the non-monetary benefits provided to mortgage brokers. This points to some of the challenges in this area and the extent of work required to achieve full alignment with the Sedgwick Review recommendations.

While a significant amount of work has been done by the CIF in arriving at principles to guide the implementation of the Sedgwick Review recommendations for third party channels, further work needs to be done to reach full alignment, consistent with the ABA's acceptance of all recommendations of the Sedgwick Review. The ABA has acknowledged the CIF commitments as an important first

²⁰ Reconciliation of the 21 detailed recommendations of the Sedgwick Review is outlined in Appendix E.

²¹ Available at https://www.mfaa.com.au/sites/default/files/users/user130/CIF_Report_Submitted_281117_0.pdf

step, with further work to be done on remuneration structures to align with the recommendation to adopt approaches to the remuneration of mortgage brokers and aggregators that do not directly link payments to loan size and reflect a holistic approach to performance management (Sedgwick Review recommendation 18).

Against the background of the objectives of Initiative 1 and the recommendations of the Sedgwick Review, National Australia Bank (NAB) has provided a case study on how it is improving the alignment of remuneration to customer centric outcomes.

Case Study A: Remuneration

The bank has undertaken investigation across its retail functions, including marketing and product, to identify and change formal and informal sales practices to improve alignment to customer centric outcomes, including:

- Scorecard design and measurement;
- Leaderboards and other visual management;
- Reporting and operating rhythm;
- Recognition programs; and
- Performance management frameworks

In addition this investigation has also focussed on ensuring capability and leadership is in place to deliver customer outcomes in the spirit of Sedgwick, including: coaching, performance management, leadership communications, behaviours, training, and reference materials. Finally the investigation has aimed to identify and implement changes to product marketing design (as applicable) for a variety of retail products.

As a result of this investigation a number of possible changes have been identified that are in the process of being implemented across the bank. In addition some early wins were identified in relation to performance reporting, whereby some performance reports have been modified to drive the right employee behaviours and ensure optimised customer outcomes.

Apart from implementation of the Sedgwick Review recommendations, the only element of Initiative 1 that remained outstanding at the date of my previous report was the publication of overarching principles on remuneration and incentives by all participating banks. Report 7 observed that six banks had not published their overarching principles by 31 December 2017, however these remaining banks have advised that this measure is now complete.

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.

As previously reported, the measures associated with the establishment of customer advocates and working with ASIC to expand customer remediation programs are complete. Many of the banks have acknowledged that the introduction of customer advocates (or enhancements to their existing advocate functions) to confirm the industry's commitment to listening to customers and escalating their concerns, was a significant achievement of the Banking Reform Program.

Australia and New Zealand Banking Group (ANZ) has provided a case study highlighting how the bank is seeking to make it easier for customers when things go wrong.

Case Study B: ANZ's Responsible Banking Team

As part of the work on ANZ's purpose and structure, ANZ has created a new Responsible Banking team in its Australian Retail and Commercial business with approximately 150 people under a senior ANZ Executive. The team will be responsible for three things:

1. Large scale customer remediations, so that if we get things wrong we compensate customers, we fix the underlying issues and we share the learnings and incorporate those into the design and delivery of ANZ's products, systems and processes. There will also be an increased focus on building tools and capabilities to improve the cadence and consistency with which we compensate customers.
2. Product suitability, to continue to ensure we provide our customers with suitable products and they are using those products as intended.
3. Working with teams across Retail and Commercial to ensure we continue to lend to our customers responsibly.

ANZ is moving to agile ways of working and the Responsible Banking team will comprise a number of multi-disciplinary squads including members with a mix of skills across product, frontline banking, remediation, data and technology. This will deliver faster outcomes and better value for our customers.

In relation to the measure of broadening the EDR schemes, since my last report legislation to establish the Australian Financial Complaints Authority (AFCA) has passed through Parliament, with the new EDR scheme expected to commence on 1 July 2018. AFCA will be a single EDR body for all financial disputes, aimed at:

- Enhancing access to redress for consumers, including higher monetary limits and compensation caps;
- Enhancing access to redress for small business;
- Increased ASIC oversight of the single EDR body; and
- Transparency, through reporting to ASIC in a standardised form on banks internal dispute resolution activity.

The ABA has advised that the industry is now working with Treasury and the Joint Working Group, comprising the Financial Ombudsman Service (FOS) and Superannuation Complaints Tribunal (SCT), to transition existing EDR arrangements to AFCA. With the passage of the AFCA legislation and consequent broadening of the EDR schemes, this measure is now complete.

The Supplementary Final Report of the Review of the financial system external dispute resolution framework (the Supplementary Ramsay Report)²² was publicly released on 20 December 2017 recommending the establishment of a prospective last resort compensation scheme covering financial advisers. However the Government advised that, given the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry will examine many of the issues that have been considered in the Supplementary Ramsay Report, further consideration of a prospective last resort compensation scheme will be deferred until completion of the Royal Commission.²³ Therefore the industry's work on this final measure of Initiative 2 is complete at this stage, with the next phases reliant on government.

²² Available at <https://static.treasury.gov.au/uploads/sites/1/2017/11/Supplementary-Final-Report-2.pdf>

²³ Refer to <http://kmo.ministers.treasury.gov.au/media-release/124-2017/>

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

This initiative reflects the industry's goal of 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 2016,²⁴ developed by the ABA.

As noted in Report 7, the recommendations of the Parliamentary Joint Committee on Corporations and Financial Services into whistleblower protections in the corporate, public and not-for-profit sectors have been adopted into draft legislation. The ABA and participating banks made submissions to the exposure draft of the legislative revisions, and have advised that necessary amendments to the Guiding Principles will be made following passage of the legislation. This was expected in February 2018 however remains outstanding at the date of this report.

It is noteworthy that the Finance Sector Union (FSU) has advised that the adoption of industry accepted whistleblower Guiding Principles was most significant, and is key to ensuring that whistleblowers across the industry have a reasonable expectation of support when raising concerns. The FSU also advised that it looks forward to continuing to work with the ABA on this initiative as legislative measures come into force.

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 industry amended its implementation plan to address the revised objective of Initiative 4. This amendment acknowledged that any potential industry register would pose complex legal issues, and as a consequence, the ABA introduced its *Conduct Background Check Protocol* for bank employees (the Protocol) as an interim measure while it sought to progress an industry register.

The ABA is currently working through a post-implementation review of the Protocol and following this process, has advised that it will liaise with other industry associations on a strategy to expand the coverage of the Protocol to non-banks. The ABA has advised that a practical challenge for the financial services industry is the administration required to facilitate the operation of the Protocol and the resources needed, particularly as coverage to non-banks could potentially involve the ABA having to provide services outside the membership of the ABA.

The ABA expects that any further work on an industry register would commence by June 2019, following completion of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The FSU continues to support the establishment of a Protocol with regulatory rigour that affords employees more effective appeal mechanisms and procedural fairness.

²⁴ Refer to http://www.betterbanking.net.au/wp-content/uploads/Final_Whistleblower_Guiding_Principles-Dec-2016.pdf

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

Following the recommendations of the independent review of the Code of Banking Practice by Mr Philip Khoury (Khoury Review), the ABA completed its redrafting of the Code, which was subsequently renamed the Banking Code of Practice.

Report 7 observed that the ABA had applied to ASIC for approval of the Code under Section 1101A of the *Corporations Act 2001*.²⁵ The ABA and ASIC are currently going through the approval process. The ABA is hopeful that final approval of the new Banking Code of Practice will be provided in May 2018, however timing of approval remains outstanding as at the date of this report.

Following approval of the Code, the subscribing banks have committed to implementing changes within 12 months. All subscribing banks have reaffirmed their confidence in achieving this deadline. A number of banks had advised that work was already well underway to update existing policies, procedures and systems in advance of ASIC's approval, recognising that this would be a significant undertaking.

The Commonwealth Bank of Australia (CBA) highlighted one of the initiatives it is taking in the spirit of the new Banking Code of Practice to assist customers monitor their spending.

Case Study C: Spender tracker

Research shows that as payment methods become easier and faster, it can be harder for consumers to stick to spending goals.

Spend Tracker is a CBA financial wellbeing innovation designed to help customers better manage their spending, in our increasingly cashless economy. Spend Tracker will provide customers with:

- An instant notification in the CommBank App as they spend
- Insights to see where money has been going month to month, in categories such as groceries, dining out, transport and shopping

In January 2018, we launched Spend Tracker for debit cards following a successful trial in 2017 with over 1 million credit card customers.

With this launch, around 4 million Australians will now have access to this helpful tool to track where their money is going.

We have partnered with leading researchers from Harvard University to help us to develop, test and enhance financial wellbeing solutions such as Spend Tracker.

²⁵ The *Corporations Act 2001* section 1101A(1) states that ASIC may, on application, approve codes of conduct that relate to any aspect of the activities of: (a) financial services licensees; or (b) authorised representatives of financial services licensees; or (c) issuers of financial products; being activities in relation to which ASIC has a regulatory responsibility. The approval must be in writing.

Westpac Banking Corporation also provided a case study on an initiative taken in light of the new Banking Code of Practice to support customers through life events.

Case Study D: Supporting customers through life events

The new Banking Code includes provisions around taking extra care with vulnerable customers. At Westpac, we are committed to supporting our vulnerable customers. We also recognise that customer vulnerability can be temporary, sporadic or permanent in nature. We recognise that all customers can become vulnerable during specific life events. Westpac is committed to doing the right thing by the customers and communities we serve, and helping them through moments of change.

As part of a broader focus on key life events, we have recently undertaken work that focuses on supporting our customers dealing with bereavement. We recognise this can be a difficult time for customers when they are dealing with the loss of a loved one, along with administrative burden of a deceased estate. We are also focused on how we can minimise the volume of hardship that can occur after bereavement. Some key aspects of our work include:

- We have produced a guide called “Guiding you through the loss of a loved one”;
 - We launched a new webpage to help customers dealing with bereavement and the resultant management of a deceased estate;
 - A Portfolio Manager at Westpac presented a talk in January 2018 “Talk about your death while you’re still healthy” at a TED-curated event in partnership with Westpac delivering key messages about how we should talk about death early and plan, and how having a plan can help reduce stress on loved ones and support those who are grieving.
-

In their submissions to my review, of the five participating banks that had not previously subscribed to the Code of Banking Practice, four have confirmed their intention to adopt the new Code, which is a very encouraging development. The remaining bank is still assessing its subscription status, pending finalisation of ASIC approval.²⁶ The ABA has also announced that retail banks will be required to subscribe to the new Banking Code of Practice as a condition of membership of the ABA.²⁷

Initiative 6: Supporting ASIC as a strong regulator

This initiative comprised working with government and ASIC to enhance the current breach reporting framework to provide more consistency in how its regulatory guidance is interpreted. As noted in Report 7, recommendations by Treasury’s ASIC Enforcement Review Taskforce for improvements to the breach reporting framework were expected by the end of 2017, however there have been no further announcements from government in this area at the date of publication of this report.

Initiative 6 also included 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. Legislation and regulations for the funding model have been settled and final practical arrangements for calculating and receiving levies is being managed by ASIC.

²⁶ Qudos has advised it is still considering its position in relation to subscribing to the Banking Code of Practice.

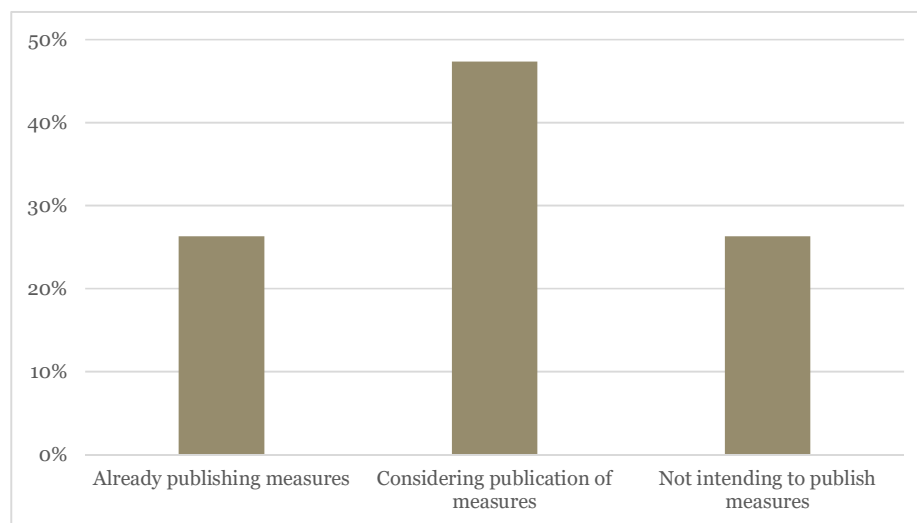
²⁷ Refer to <https://www.ausbanking.org.au/media/media-releases/media-release-2018/new-banking-code-of-practice-will-be-compulsory-binding-and-enforceable>

3.5 Performance indicators

At the outset of the Banking Reform Program, I observed that while the ABA's implementation plan anticipated substantial completion of the various measures by December 2017, the full realisation of benefits would require a sustained management focus by the banking industry and inevitably take longer for the benefits to be fully apparent to consumers. In this light it is critical for the industry to demonstrate the success of the measures in building trust and confidence over time as well as increasing transparency on the progress being made by the banks. Stakeholders consulted as part of this review have emphasised the need for transparency in reporting on the status of measures proposed by the Banking Reform Program.

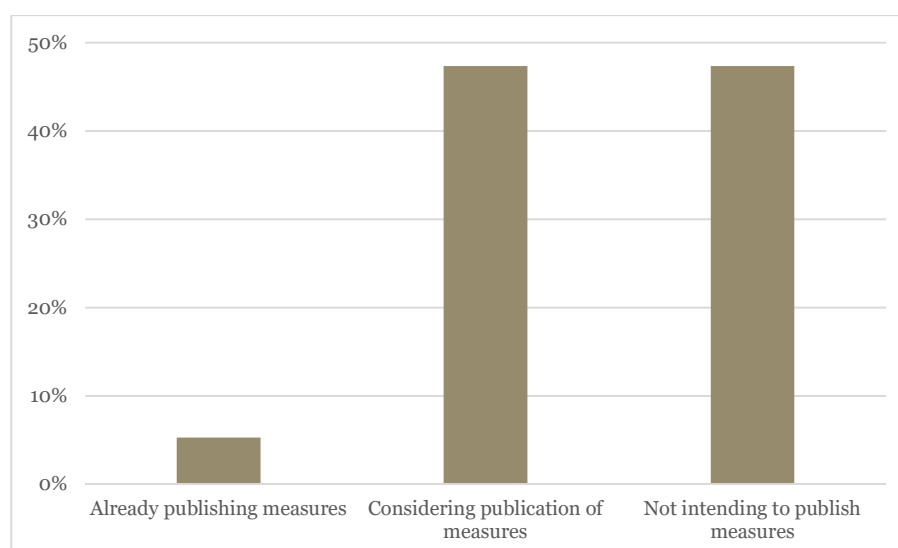
To this end, the ABA has advised its commitment to continue to measure consumer sentiment at an industry level every six months and include these results in public progress reports. Specifically, the focus of these performance indicators will be on measuring the extent of awareness of the initiatives among the community and whether the customer experience of banking is changing as a result of the initiatives. In addition to the industry level reporting, five participating banks have stated their intention to continue to publish bank-level indicators (such as Net Promoter Scores) and eight are considering public reporting of such indicators.

Figure 3: Publication of bank-level indicators of consumer trust and confidence²⁸



In contrast, the industry has decided not to proceed further with industry-level surveys of employees, as originally envisaged when the Edelman Intelligence survey of trust and confidence was being planned. However the ABA advised that most banks have confirmed their intention to measure employee attitudes towards the Banking Reform Program through existing bank-level surveys, including by adding new questions which will help to monitor employee trust over time. There is less committed support for the public reporting of this data; with the decision on public reporting to be left with individual banks.

²⁸ Figure 3 is based on submissions received at the time of preparation of this report from 19 participating banks.

Figure 4: Publication of bank-level indicators of employee attitudes²⁹

In addition to measuring consumer sentiment, the ABA committed to ongoing public reporting of the implementation status of the remaining initiatives (Initiative 1 and Initiative 5) at an industry level. The Sedgwick Review external reporting framework, first published in Report 7, will continue to be used by the ABA to track implementation status of the participating banks. In addition, the ABA will also collect information from participating banks on their progress towards aligning practices with the provisions of the new Banking Code of Practice.

The reporting mechanisms for Initiative 1 and Initiative 5 are important steps in demonstrating the accountability of the industry to the commitments made in April 2016, at the outset of the Banking Reform Program, and also reflect bank and stakeholder feedback about the importance of transparency about the changes being made by the banks. For example, in the words of one bank Chief Executive Officer: “We believe that it is an important element in continuing to publicly demonstrate industry’s commitment to initiatives contained in the Banking Reform Program”. To this end, some participating banks have advised that they will go beyond the ABA reporting framework and individually publish the status of their Code implementation progress.

While the commitment of a number of the participating banks to this increased transparency is welcomed, a consistent approach to reporting bank-level performance indicators would be desirable. I see particular benefit in ongoing attention being given by the industry to providing the public with measures of success in building trust and confidence at the individual bank level. Such measures may need to be tailored to account for the different product and segment mixes of individual banks to serve the dual purpose of providing useful information for management purposes and informing consumers of progress being made towards the industry’s overall goal, in a cost effective manner. Further, such measures would play a beneficial role in maintaining each institution’s focus on underlying improvement – it is the trends that are most important here. In particular, negative trends will inevitably focus the attention of the Board and senior executives while positive trends can reinforce momentum.

²⁹ Figure 4 is based on submissions received at the time of preparation of this report from 19 participating banks.

Against this background, leadership by the ABA in establishing an appropriate policy for reporting by individual banks would greatly assist in enhancing transparency in relation to the contribution of each bank to the industry's overall goal. This would also respond to stakeholders' desires for greater transparency in terms of the various initiatives and their impact.

Recommendation

The ABA, on behalf of the banking industry, should commit to the development and introduction of a policy which would provide for individual banks to publish appropriate performance indicators and commentary to give greater transparency to their success in achieving the industry's goals of building trust and confidence.

The ABA has provided the following response in support of this recommendation:

"The ABA and the industry accept the recommendation and will develop a policy requiring banks to identify performance indicators suited to their bank and use these to measure and report on the impact of industry reform initiatives and the goal of building trust and confidence. These performance indicators will not be a set of uniform measures across the industry. The ABA will provide guidance on what should be taken into account in developing performance indicators, suggested frequency and channels for public reporting.

As noted in our recent submission, the ABA and banks have agreed on a framework for banks to report implementation progress to the ABA, and further work is being done on reporting outcomes from the customer advocate and whistleblowing initiatives."

Separately, the industry committed to publication of indicators for two specific initiatives being: mechanisms to measure the effectiveness and outcomes of the customer advocate function; and mechanisms to measure the effectiveness of whistleblower programs. As noted in Report 5, the Customer Advocate Forum was considering how best to measure and report on the effectiveness of the customer advocate function, although no conclusive decision had been reached at that time. In considering appropriate ways to measure awareness and effectiveness of the customer advocate function, the industry is now exploring options including engaging an expert consultant to assist with design of the measures and framework for reporting. The industry must continue to push forward on this in order to fulfil the commitments already made under the *Guiding Principles – Customer Advocate*, accepting that the solution will necessarily need to accommodate the different customer advocate models implemented by banks. In relation to performance indicators for the effectiveness of whistleblower programs, the ABA has advised that the industry is awaiting final passage of legislation (as noted in Section 3.4) prior to finalising performance indicators for this initiative.

3.6 Concluding remarks

Two years after the initial industry announcement, the industry-led work for 11 of the 13 planned measures has been completed, with three of those 11 measures still dependent on statutory underpinnings for finalisation.

The two measures where industry-led work is continuing relate to: implementation of individual bank policies on remuneration and incentives to adopt the Sedgwick Review recommendations; and changes to bank processes to reflect the new Banking Code of Practice. The implementation period for individual banks is expected to take a further two to three years in recognition of the need to engage with employees and other stakeholders as appropriate, the changes required to

bank policies and systems, and staff training required.³⁰ As noted, the ABA has mechanisms in place to monitor and report on the completion of these measures.

The current status of measures supporting each initiative is summarised in Figure 5 below, with a comparison to the status reported in Report 7 (R7). Further information is provided in the implementation plan at Appendix A.

Figure 5: Implementation status of the measures³¹

Milestone Status	Complete Implementation	
	R8	R7
Complete	8	6
On track	2 (a)	1
Adjustment required	-	1
Date not yet specified	-	1
Next phase reliant on government	3 (b)	4
Total	13	13

(a) Included in this number is Measure 5.2 (Work with banks to implement changes to improve the operation of the Code of Banking Practice within their individual organisations). While the date for completion remains to be confirmed pending approval of the Code by ASIC, the subscribing banks have committed to implementing changes within 12 months. All subscribing banks have reaffirmed their confidence in achieving this deadline. The second measure included in this number is Measure 1.3 (Work with regulators to implement changes and, where necessary, seek regulatory approval and legislative reform) which is scheduled to be adopted through to the performance period commencing in the year 2020.

(b) Refer to the implementation plan in Appendix A.

Overall, the Banking Reform Program has been a significant undertaking for the participating banks and the ABA. Development of industry positions and the requisite changes to banks policies and processes have required a substantial investment of time and resources, acknowledging that participating banks were starting from different positions at the outset of the reform program.

All participating banks that provided a submission³² have reported that the reform program has at least met their expectations for both their bank, and the banking industry, and in some cases exceeded expectations. Those stakeholder groups that chose to make a submission to my review were more sceptical, reporting that the reform program had partially met their expectations, but not denying some level of improvement. This highlights the importance of transparency and the need for the industry to continue its dialogue with stakeholders to work any specific issues through as well as to more generally address concerns with trust and confidence in banks.

³⁰ Predominately, this reflects the time established by the Sedgwick Review to implement changes to remuneration and incentives for retailing banking operations.

³¹ Quantification and summary status of milestones is based on the information outlined in the implementation plan contained in Appendix A.

³² As previously noted, the Bank of Sydney had not provided a submission at the time of preparation of this report.

In this light, I have recommended that the ABA, on behalf of the banking industry, commit to the development and introduction of a policy which would provide for individual banks to publish appropriate performance indicators and commentary to give greater transparency to their success in achieving the industry's goals of building trust and confidence. The ABA and the industry has accepted this recommendation. In addition, this report has emphasised the importance of the banks monitoring, measuring and reporting on the effectiveness of the customer advocate function and whistleblower policy and program, consistent with the respective Guiding Principles.

4 Factors critical to success

4.1 Introduction

Over the course of the Banking Reform Program, the industry has made a significant investment to rebuild community trust and has sharpened its focus on the elements critical to achieving this goal. This chapter reflects on factors contributing to the effective delivery of the Banking Reform Program, including observations for the management of any future programs. It also highlights some of the insights delivered or reinforced through the Program as observed by various banks. Finally, it makes reference to the recommendation made in this report to give greater transparency to the performance of individual banks in achieving the goals of the Program.

4.2 Factors contributing to the performance of the Banking Reform Program

Implementation of the industry's package of initiatives within its specified timeframe has been an ambitious undertaking, both in terms of the extent of the changes required and the broad support required from the banks and other industry participants. These initiatives have been implemented during a time of significant change for the industry, brought about by a focus on improving global regulatory standards, streamlining business models, advances in technology and cost containment.

In looking back, the following factors have been particularly important in underpinning the significant reforms introduced:

- A sound governance framework;
- Industry support for the initiatives;
- Appropriate collaboration between banks;
- Engagement with government, regulators and other stakeholders; and
- The use of independent experts and the transparency of their reports.

These factors are further detailed below.

A sound governance framework

The ABA, in conjunction with the participating banks, implemented a robust framework for governance of the reform agenda. Having announced the initiatives, the industry put in place a sound governance framework with ultimate oversight by the ABA Council and driven by the Industry Strategy Working Group (since reconstituted as the Strategy Committee). Moreover, the governance mechanisms were adjusted through the reform program as circumstances required in response to changes in the business environment and activity peaks.

Clear timelines for the reform program were established and an appropriate approach to risk management adopted. The phased approach to delivery of milestone steps maintained the reform momentum, and in many cases, earlier work provided a sound foundation for later measures to build upon. In addition, the ABA identified initiatives that could be accelerated, with some initiatives delivered ahead of original timelines.

In short, the reform program governance structure, supported by dedicated resources within the banks and the ABA, facilitated the development and timely completion of measures, and was also responsive to the dynamic nature of the industry and the various public inquiries running concurrently with the Banking Reform Program.

The governance framework also included my role as independent reviewer of the reform program. This was a departure from past practice of the ABA. The banks and the ABA have been diligent in responding to requests for information and I have experienced a strong commitment by them to engage with me where I considered that there was scope for improvement.

Industry support for the initiatives

Throughout this review, a high level of commitment to implementing the Banking Reform Program has been evident across the industry - a necessary prerequisite for a program of this kind.

The ABA has been pivotal in driving the initiatives. The commitment of the two Chief Executives, Mr Steven Munchenberg (prior to his retirement in March 2017) and Ms Anna Bligh AC, as well as the Deputy Chief Executive, Ms Diane Tate, and their teams, has been evident throughout.

Likewise, the very high level of commitment to the Banking Reform Program from the bank Chief Executive Officers has been evident from their public statements and my consultations with them. The sentiment expressed by the Chief Executive Officers recognised that the reform program is good for customers and good for business in the longer term. It was also evident from these consultations that bank Boards were providing support for the reform program and giving explicit sanction and support to repositioning the importance of a stronger customer focus going forward.

Within the participating banks it was clear that the reform program was given suitable priority both in terms of time and resources, considering the range of demands on individual banks. In this regard banks have advised of the engagement with staff by their leadership teams to deliver on the customer orientation inherent in the reform measures, thereby embarking on a longer-term goal to embed the central focus on customers in the way business is done within the culture of each bank.

Related to this, one notable aspect of the package of industry initiatives has been the extent to which banks have taken a broader view of the measures, and either sought to extend those measures to parts of their operations beyond retail banking, or further build on the minimum expected standards established by the ABA. These actions demonstrate the intent of the participating banks to adhere to the objectives of the initiatives, and in this way work towards bridging the trust gap between banks and their customers.

Appropriate collaboration between banks

From the outset of the package of initiatives, one of the key success factors of the Banking Reform Program has been the level of collaboration between the participating banks while recognising the normal constraints of competition law and natural competitive tendencies. This commitment to work towards the common goal of rebuilding the trust and confidence of customers has been an enabler of industry-wide improvements. It has also demonstrated the benefits of the banks taking advantage of opportunities to collaborate, where appropriate, to achieve good customer outcomes. The industry has been supported throughout the reform program by Gilbert + Tobin Lawyers, to provide assurance that the reform

program was implemented in a manner that allowed the industry to work together while meeting their legal obligations, particularly around competition laws.

Throughout this review it has been acknowledged that all banks were not commencing from the same starting point. Further, smaller banks advised of the significant time and resource commitment to implement the various measures. In this context, it was encouraging to see the major banks and the ABA, through the various governance forums, providing a degree of assistance to smaller banks, sharing experiences in early implementation of measures and contributing to the development of policy positions, and identifying where the major banks may be able to introduce changes first, with smaller banks afforded additional time. This approach has allowed the industry to move together while recognising some of the practical challenges of the smaller banks.

Engagement with government, regulators and other stakeholders

Over the course of the Banking Reform Program, the industry has exhibited a willingness to engage with government and regulators (in particular ASIC and APRA) in open dialogue regarding the scope and implementation of a number of the initiatives. This engagement has been positive and has been well received.

The industry's engagement with other stakeholders and willingness to listen to their concerns has also been apparent. This was particularly evident in initiatives such as the revision of the Code of Banking Practice where quite extensive engagement has taken place. Understandably, there have been some friction points in this regard, but overall my judgement is that the level of engagement with stakeholders has been positive and influenced the outcomes achieved.

The contribution of stakeholders who have engaged with this review, both in meetings and in written feedback, has been appreciated. I would encourage other stakeholders to be more proactive in this regard in any future review process as opportunities to contribute to reform programs of this kind only present occasionally.

Use of independent experts and the transparency of their reports

A distinguishing feature of the package of initiatives was the judicious use of independent experts to conduct reviews to inform critical components of the industry initiatives (for example, the Sedgwick Review and the Khoury Review). The reviews were extensive and based on broad consultation, laying solid foundations for the industry to consider changes to current practices.

In addition, the ABA engaged expert consultants to assist on work in identifying standards and best practices in the areas of the customer advocate functions and whistleblowing policy and programs.

The findings of these independent reviews and papers prepared by the expert consultants were made publicly available, providing transparency to stakeholders and providing the basis for the industry to be accountable for recommendations not ultimately adopted.

In addition, the appointment of an independent oversight function to review and report publicly on the overall progress of the Banking Reform Program further enhanced transparency and accountability. The steps taken by the industry to engage Edelman Intelligence to baseline measures of trust and confidence were also very encouraging and a first for the banking industry in Australia.

4.3 Observations for future reform programs undertaken by the industry

In addition to the factors positively contributing to the implementation of the package of initiatives, there were also two noteworthy observations that the industry should consider in framing future initiatives.

Initial framing of initiatives and identifying measures of success

In any complex program like the Banking Reform Program, there will always be a degree of judgement about how much time should be devoted to framing and planning initiatives, and associated measures of success, ahead of commencing implementation.

One strength of the current reform program has been that all six initiatives had the same three overarching phases to which milestones were attached – planning, agreement of principles, and implementation.

That said, it was also clear that not all of the initiatives had been subject to sufficiently rigorous review and testing ahead of the reform program's initial announcement in April 2016. This is particularly the case for those initiatives which involved some level of support from government – there has been an under-estimation of the extent to which the reform program depended on statutory underpinnings and the flow-on consequences of this for the implementation timetable. As of this report, three initiatives are reliant on statutory underpinnings before they can be completed. A little more reflection in the initial framing of the initiatives and their timelines may have assisted implementation planning.

In the same vein, there appears to have been minimal thought given to specific measures of success for the reform program overall ahead of its public announcement. In my experience, the discipline involved in framing initiatives in the context of the appropriate measures of success is very helpful in clarifying scope, objectives and realistic timeframes. While this was addressed at an industry level during the course of the reform program through the utilisation of the Edelman surveys, in future programs, more attention could beneficially be given to framing measures of success earlier in their design phase. This should include consideration of bank-level reporting, as referred to in Section 3.5.

Program commitment and resilience

As noted above, this reform program has benefited from a sound governance framework. This was particularly important given the ambitious scope and timetable for the reform program, as well as the diversity of the stakeholder base.

That said, implementation of the program may have benefited from a less permissive 'hand on the tiller' at various stages where there was ample opportunity for different participants to press for adjustments or exceptions.

While I recognise that in order to ensure industry efforts remain focused on achieving the goals of the reform program as identified, as always, there is need for flexibility and compromise with implementation. However my observation would be, at times, the overall reform program would have benefited from an approach which required greater 'cut-though' to deliver on the industry's commitments. For example, in the case of the decision not to proceed with the development of industry level guiding principles to assist banks in developing their overarching principles on remuneration and incentives, the industry had forgone an opportunity to act together. That said, as a general comment, public reporting and

accountability for positions taken serves to test proposed actions against the industry's objectives.

The reform program has a lengthy implementation period. In these circumstances maintaining a focus is often challenging and on occasions it was apparent that the range of matters being addressed by the industry resulted in resources being stretched. Nevertheless, it is important for success that the governance arrangements for the industry and for individual banks maintain the focus and drive required to deliver on the intentions. This necessarily requires support for the reform program to be sustained at an organisational level when inevitably other priorities emerge and demand attention.

4.4 Insights in relation to customers, employees and other stakeholders

As this is the final report in this series of quarterly reports, participating banks were asked about the insights they obtained from the reform program in relation to their customers, employees and other stakeholders. A selection of these is set out below.

Customers

- “We know that customers want banking to be simpler and faster. Insights gathered through this reform program reinforced this view.”
- “One of the greatest insights for (our Bank) in relation to our customers is that how we respond to them when an issue arises is absolutely critical to meeting our vision . . .”
- “The industry reform package has reinforced our belief that our customers value transparency and honesty in how we communicate with them, and want to know that we are listening to and acting on their concerns. This has been demonstrated by the positive response from our customers to industry initiatives such as the removal of sales incentives for front line staff, simplifying small business lending contracts and the recognition of our work in helping vulnerable customers, including victims of domestic violence, supported by our Customer Advocacy team.”
- “Significant change is underway in how banks engage with customers. Simpler and clearer communication is central to this at each stage of the customer relationship: how banks explain products and services, collect customer information, sign-on customers, and work with customers who are in hardship or have a complaint.
 - The Khoury review has resulted in a more plain speaking industry Code that provides a consumer friendly resource based around the cycle of the customer relationship.
 - The need for simpler customer documentation, such as standard small business contracts, was also identified through the Khoury review and has been addressed by (the Bank).
 - Changes in (our Bank's) remediation approaches will ensure bank mistakes are more quickly acknowledged and put right.”
- “The introduction of a Customer Advocate was a great example of the Program complementing internal initiatives. Through our customer analysis, it became clear that customers and staff required a further avenue to escalate customer complaints, particularly for more vulnerable customers or where our standard policies and processes may not have facilitated an acceptable outcome. The Customer Advocate function has addressed this issue by providing the flexibility and authority necessary to

consider and resolve this type of complaint. The Customer Advocate has also led to increased engagement with consumer groups which has enhanced our understanding of vulnerability and the challenges faced by elderly and disabled customers. We can now better identify where improvements to our processes are required to better service these customers.”

- “While it is still early days, it is encouraging to see signs that customers value the reforms that the industry is delivering, and that there is some appreciation of the customer benefits that the reforms will deliver. We would expect customer awareness and attitudes towards the reform program to further improve as the new Banking Code is progressively implemented over the year ahead.”

Employees

- “Our external reputation is important to our employees and actions that improve trust in our industry also support our employees.”
- “Our employees really care about our customers and want to make sure they are always acting in the customers best interests . . . Our focus is on a customer centric culture which is a move away from the sales centric culture which has historically been the focus by banks.”
- “The reform initiatives have been a catalyst for focusing more on how banks reward staff, improving how staff who speak out about inappropriate behaviour are protected, and how people who breach the law or codes of conduct are prevented from moving around the banking sector.”
- “Our staff strive to deliver the best outcomes for our customers. Over the past 18 months, we have observed our staff showing an increased interest in reform activities (and how (our Bank) is addressing them), which we believe has been driven (at least in part) by the ongoing attention on banks in the media. Being informed helps our staff have meaningful conversations with our customers.”
- “The banking initiatives are aligned with our vision and values and our staff have welcomed the changes. We have established and will continue to strengthen feedback channels for employees to provide their perspectives on the effectiveness of our efforts to reform culture, performance management and remuneration arrangements. This includes encouraging a culture and safe mechanisms for staff to raise concerns.”
- “We have introduced monthly performance conversations for all employees – which means our people receive regular feedback and coaching on how they live our values, not just what they have achieved.”
- “We will continue to provide regular communications to our staff during this program and also hold face to face sessions for our leaders ensuring that they are kept up to date with the items within the plan.”

Other stakeholders

- “The Program is an excellent example of the industry’s ability to self-regulate. It was encouraging to receive the support of regulators and other stakeholders for a number of initiatives, and to have the opportunity to work closely with consumer groups to help ensure we delivered considered and meaningful change. Banks and consumer groups are generally focussed on the same objectives – delivering good customer outcomes and fairer banking – and we believe there are benefits to be gained by continuing to work together on industry-initiated reform in the future.”

- “Stakeholder engagement could be improved to increase the quality of interactions between customers, banks and regulators to allow issues to be resolved in a more timely way and on an ongoing basis . . . There is a first mover disadvantage associated with implementing some of the reforms in the package, for example in relation to third party incentives (an issue identified during the Royal Commission hearings). This requires a more coordinated response to allow reforms to be brought in quickly.”
- “Our experience over the last 18 months has highlighted that (i) any meaningful improvement in consumer trust and confidence in the banking industry can only be achieved by the sustained and collaborative efforts of all relevant stakeholders - i.e. consumer advocates and community groups, small business and farming representatives, regulators, ombudsmen, Government representatives, and banks; and (ii) it would be impossible for the financial sector to achieve such improvements in isolation. The criticality of this collaboration is evidenced by the linear dependencies of all the deliverables that are a pre-requisite to the successful implementation of the ABA’s Reform Programme initiatives.”
- “We continue to receive valuable feedback from external stakeholders on the progress of these reforms. In particular, through continued engagement by our customer advocate with consumer stakeholder groups we are able to broaden the range of voices we hear from, particularly those that are most in need of assistance . . . Our ongoing engagement with government and regulators on a range of industry reform initiatives provides us with regular feedback on where we can continue to improve our products and services to meet community needs. We are also actively engaging with policy makers on new initiatives.”
- “With Stakeholder groups we are looking to have a more open and frank dialogue to get feedback on issues and what we can be doing better.”

Overall, as previously indicated in Section 3.6, banks have assessed that the program has at least met their expectations for both their bank, and the banking industry, and in some cases exceeded expectations.

On the other hand, stakeholders that responded to my request for comments were more sceptical and considered that the banks had only partially met expectations. Their insights included the following:

- “Banks continue to resist transparency on how each bank implements the voluntary initiatives.”
- “The revised Banking Code of Practice appears customer centric but retains the asymmetry of power held by the banks.”
- “Despite the details and recommendations of Sedgwick’s Review and the ongoing public guarantees of member banks adopting and implementing the recommendations . . . members are not seeing real change to their day-to-day lives at work.”

These stakeholder perspectives underline the importance of the industry placing a premium on transparency and customer-centric responses to deliver on its goals and overcome the trust deficit that was the stimulus for the current reform measures. Further, it is important for the banks and the ABA to maintain a dialogue with stakeholders not just about the specifics of the reform program, but in order to continue to build and rebuild trust and confidence in banks.

4.5 Recommendation

During the course of this independent governance review, the ABA and the participating banks have in the main been responsive to taking on board opportunities to enhance the delivery of the Banking Reform Program. This final report includes a focus on the development of performance indicators at an individual bank level that I consider necessary to guide the management and ultimate delivery of the reform program to achieve its goals.

This final report includes the following recommendation, which was accepted the ABA and the industry:

The ABA, on behalf of the banking industry, should commit to the development and introduction of a policy which would provide for individual banks to publish appropriate performance indicators and commentary to give greater transparency to their success in achieving the industry's goals of building trust and confidence.³³

In addition, the report emphasises the importance of the ABA following through on its previously made commitments to achieve full alignment of the CIF principles to the recommendations of the Sedgwick Review, and to develop measures to assess the effectiveness of the customer advocate function.

4.6 Concluding remarks

Throughout the course of the Banking Reform Program, the importance of individual banks addressing the industry goals with a clear focus and commitment, and taking the broad view have been key success factors to advance the goals of the industry package of initiatives. The case studies submitted by the participating banks have been a tangible demonstration of this, with banks adopting innovative approaches to meet the spirit of the reform program and not simply engaging in a 'tick the box' exercise. A number of banks have sought to leverage the initiatives across their organisations, and actively sought to share best practice with their peers through mechanisms such as the customer advocate forums. At the same time, the extent of consultation with the broad range of stakeholders, including government, regulators, consumer organisations and employee representatives, has shown a clear intent on the part of the industry to address the fundamental concerns that led to the development of the trust gap between the banks and their customers.

By its nature the banking industry is conservative and that has meant that it has been measured in the way it has promoted the extent of the changes made. Where the Chief Executive Officers have promoted the industry's goals, there has been a better appreciation in the broader community and with bank employees of the impact of the reform program. I encourage the industry to continue to find ways to promote the reform program and the impact of the initiatives, as well as promote a better understanding of the role of banking within our community.

³³ Refer to Section 3.5 for background to this recommendation.

In terms of the industry's ultimate goal of protecting consumer interests, increasing transparency and accountability and building trust and confidence, I have recommended that the ABA establish an appropriate policy for reporting by individual banks to enhance transparency in relation to the contribution of each bank to the industry's overall goal. This recommendation was accepted by the ABA and the industry. In addition, there is still work to be done to finalise specific measures of effectiveness for the customer advocate function and, in conjunction with the CIF, to reach full alignment with the Sedgwick Review recommendations.

As I have said during the course of my review, it is the outcomes that matter most, and the success of the Banking Reform Program will ultimately be judged on whether the very tangible changes made result in better outcomes for customers. The Chief Executive Officers have advised, in their own words, that they are focused on 'doing the right thing', and have a strong desire to strengthen their relationship with customers and to be able to demonstrate this as an industry. Revision of the banks' service commitment to customers in the light of the industry's initiatives, and a focus on adopting the new Banking Code of Practice in the way the banks do business are important factors. In order to embed change, there must be alignment between the bank values and expectations of the Chief Executive Officers and their executive teams, and the behaviours of bank employees focused on achieving better outcomes for customers. Trust and confidence takes time to build yet can be quickly eroded. Consequently, ongoing reinforcement of bank values and expectations by the leadership of each bank is important to avoid any drift from the expected behaviours in delivering services consistent with statutory obligations and bank policies. Experience shows each layer of management has a key responsibility here to convey, and reinforce, the organisation's expectations.


The Banking Reform Program is a significant undertaking and banks have an ongoing role in embedding the initiatives and aligning the values of the organisation, its management structures and frontline staff to achieving good customer outcomes.

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Appendix A

Implementation plan as at 17 April 2018

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	ABA
				Complete	Complete	Complete		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
				Complete	Complete	Complete		b) 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	2020 ⁽²⁾	Potential regulatory approvals (egg authorisation, legislative reform) (*Timing contingent on preparation of report by independent reviewer and any regulatory approval processes required as well as legal requirements to be satisfied. Any necessary changes will need to be made across various agreements/ contracts and that may require further time)	a) Identification of responses and actions needed to remove or change product sales commissions and product based payments which could lead to poor customer outcomes	ABA/Industry
				Complete	Complete			b) Preparation of any documentation necessary to make any changes (such as submissions or applications for regulatory approvals)	ABA/Industry
								c) Regulatory approvals (where necessary) provided for banks to be able to make changes	Regulators
								d) Banks change remuneration structures (where necessary) and communication of how and why these changes have been made	Banks

Legend:



R1 R2 R3 R4 R5 R6 R7 R8
Reported status

Status key:

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

Legend:



R1 R2 R3 R4 R5 R6 R7 R8

Reported status

Status key:

> On target

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> Adjustment required to original plan

> Next phase reliant on government

Implementation plan as at 17 April 2018

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	Jul-16	Dec-16	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 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


Legend:


R1 R2 R3 R4 R5 R6 R7 R8
Reported status


Status key:

- > On target
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Implementation plan as at 17 April 2018

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	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	a) Assessment of whistleblowing policies and practices and creation of initial framework	ABA/Industry					
			Complete	Complete	Complete ⁽²⁾	Implementation of whistleblower framework aligned with industry principles in each bank	b) Preparation of draft guiding principles to assist each bank meet the commitment	ABA/Industry					
							c) Consultation and stakeholder engagement	ABA/Industry					
							d) Publication of guiding principles	ABA					
							e) Bank implementation of highest standard of whistleblowing policies	Banks					
4	Removing individuals from the industry for poor conduct	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	a) Identification of possible model for industry register	ABA/Industry					
			Complete	Complete		Implementation of Conduct Background Check Protocol	b) Preparation of industry position	ABA/Industry					
							c) Coordination of engagement and consensus building across stakeholders	ABA/Industry					
							d) Implementation of Conduct Background Check Protocol (from 1 July 2017 (major banks) and 1 October 2017 (non major banks))	ABA/Industry					
							e) Demonstrate industry engagement with Federal Government in support of a statutory register (end Dec 2017)	ABA/Industry					
							f) Implement statutory register if introduced by Government	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 standards for engagement between both parties	Jul-16	Dec-16	Dec-16	Independent review report on the Code of Banking Practice	a) Establishment of independent review	ABA					
			Complete	Complete	Complete		b) Assessment of information gathered and submissions received	Reviewer					
							5.2 Work with banks to implement changes to improve the operation of the Code of Banking Practice within their individual organisations					c) Preparation of draft report and engagement with stakeholders	Reviewer
												d) Publication of final report	Reviewer
			Jun-17	Dec-17	TBC ⁽³⁾	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	ABA/Industry					
			Complete	Complete			b) Preparation of any changes to the Code and associated materials	ABA/Industry					
c) Publication of the new Code	ABA												
			d) Banks make changes to reflect the standards contained in the new Code	Banks									

Legend:



R1 R2 R3 R4 R5 R6 R7 R8

Reported status

Status key:


> On target

> On alert for slippage against plan

> Adjustment required to original plan

> Next phase reliant on government

Legend:



R1 R2 R3 R4 R5 R6 R7 R8

Reported status

Status key:


> On target

> On alert for slippage against plan

> Adjustment required to original plan

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Implementation plan as at 17 April 2018

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	ABA/Industry
			Complete	Complete	Complete		b) Consideration of industry position in new model	ABA/Industry
							c) Implementation of an industry funding model which is accountable, transparent and encourages better and more efficient regulatory activities	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	ABA/Industry
			Complete	Complete			b) Participation in Government/ASIC review of breach reporting	ABA/Industry
							c) Adoption of industry position in revised regulatory guidance	Government
							d) Banks implementation of changes to systems and practices to support new breach reporting system	Banks

Legend:



R1 R2 R3 R4 R5 R6 R7 R8
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Footnotes:

- Assessment based on advice from the ABA and/or entity/entities with primary responsibility for implementation
- Initially this was due to be completed by December 2017. Consistent with the Sedgwick Review recommendations, the ABA's timetable now provides for the revised remunerations arrangements to be in place for retail banking operations by the performance cycle commencing in 2020.
- Timing dependent on final ASIC approval of the Banking Code of Practice

Appendix B

Implementation plan amendments

This Appendix sets out the amendments that were made to the original objectives, measures and milestone steps of the implementation plan of July 2016 over the course of my review. Amendments to the timetable are reflected in Appendix A of each report.

Initiative 1: Reviewing product sales commissions and product based payments	
<i>Original measure</i>	<i>Revised measure</i>
Measure 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; and strengthen the alignment of remuneration and incentives and customer outcomes	Measure 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
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
Initiative 2: Making it easier for customers when things go wrong	
<i>Original measure</i>	<i>Revised measure</i>
Measure 2.1: 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.	Measure 2.1: 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.
Initiative 4: Removing individuals from the industry for poor conduct	
<i>Original objective</i>	<i>Revised objective</i>
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 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.
<i>Original measure</i>	<i>Revised measure</i>
Measure 4.1: Implement an industry register which would extend existing identification of rogue advisers to any bank employee, including customer facing and non-customer facing roles.	Measure 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.

Initiative 4: Removing individuals from the industry for poor conduct	
<i>Original summary deliverable</i>	<i>Revised summary deliverable</i>
<p>Completion of position paper on an industry register</p> <p>Industry register established (*Contingent on model designed and whether legislative reform or regulatory change is required)</p>	<p>Completion of position paper on an industry register</p> <p>Implementation of Conduct Background Check Protocol</p> <p>Industry register established (*Contingent on introduction of supporting statutory underpinning by Government)</p>
<i>Original milestone steps</i>	<i>Revised milestone steps</i>
<p>a) Identification of possible model for industry register</p> <p>b) Preparation of industry position</p> <p>c) Coordination of engagement and consensus building across stakeholders</p> <p>d) Consensus support for implementation of register (or alternative)</p> <p>e) Identification of design parameters of solution</p> <p>f) Preparation of supportive documentation for implementation</p> <p>g) Build solution IT/Consultant</p> <p>h) Implementation of industry register (or alternative)</p>	<p>a) Identification of possible model for industry register</p> <p>b) Preparation of industry position</p> <p>c) Coordination of engagement and consensus building across stakeholders</p> <p>d) Implementation of Conduct Background Check Protocol (from 1 July 2017 major banks and 1 October non major banks)</p> <p>e) Demonstrate industry engagement with Federal Government in support of a statutory register (end Dec 2017)</p> <p>f) Implement statutory register if introduced by Government (no end date)</p>

Appendix C

Participant banks

The following member banks of the ABA³⁴ have confirmed their participation in the package of initiatives:

- AMP Bank³⁵
- 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

³⁴ Defence Bank was a participating bank until 30 June 2017 however has since withdrawn from membership of the ABA.

³⁵ AMP Bank has advised its commitment to the package of initiatives is subject to relevance to the bank and alignment with AMP Group.

Appendix D

Governance arrangements

The composition and scope of each element of the industry governance arrangements, represented in Figure 1 of Chapter 3, are:

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

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

- ABA Executive Director - Policy, whose role in relation to the reform program is to ensure the ABA team works closely with the banks on implementation of the initiatives, and is responsible for coordinating industry-level action.
- ABA Program Manager reporting to the ABA's Deputy Chief Executive Officer. The Program Manager's role is to work with the ABA team, including the Executive Director – Policy, and the banks to manage overall implementation, including ensuring there are appropriate project management processes across the program and each of the initiatives.
- Quarterly key stakeholder meetings have been established with the regulators and consumer stakeholders. These meetings are in addition to meetings and discussions on each of the initiatives, and are intended to ensure overall progress and engagement.
- Fortnightly open forums are held, in recognition of the varying level of program coordination and resources among banks, to share information on any concerns or implementation issues, particularly from the smaller banks.

Appendix E

Sedgwick External Reporting Framework

1. Variable rewards payments to retail bank staff

Sedgwick Review recommendations:

Recommendation 2) Banks remove variable reward payments and campaign incentives that are directly linked to sales or the achievement of sales targets (including, but not limited to cross sales, referral targets, and profit and revenue targets).

Recommendation 3) Eligibility to receive variable reward payments should be based on an overall assessment against a range of factors that reflect the breadth of the responsibilities of each role.

Recommendation 7) Variable reward payments no longer include any: accelerators related to financial measures; accelerator-like modifiers to financial measures; financial gateways (including but not limited to those that relate to the number or value of cross sells); and other mechanisms related to financial measures that have accelerator-like effect on the value of variable rewards available.

Recommendation 8) Variable reward payments ultimately amount to a relatively small proportion of fixed pay, with a progressive reduction in the maximum variable rewards amount payable in any schemes that require a transition period to implement this recommendation.

2. Retail bank staff scorecards

Sedgwick Review recommendations:

Recommendation 3) Eligibility to receive variable reward payments should be based on an overall assessment against a range of factors that reflect the breadth of the responsibilities of each role.

Recommendation 4) Any financial measures included in an overall assessment consistent with Recommendation 3 should: be product neutral; and in the case of a scorecard, together attract a maximum effective weight of 50% as quickly as systems and other changes can be introduced, falling to 33% or less by 2020.

Recommendation 5) All customer measures are genuinely customer-centric and tailored to the role being assessed, and progressively reflect a focus on customer outcomes, not just customer loyalty/satisfaction.

Recommendation 6) Credible behavioural or equivalent values gateways be applied to determine whether an individual can access any variable rewards to which they might otherwise be entitled.

3. Governance – performance management

Sedgwick Review recommendations:

Recommendation 10) Each bank examine its performance management system and make changes as necessary to ensure that the embedded signals and incentives to staff are aligned with Recommendations 2 to 8.

Recommendation 12) Each bank reconsider what use is made, if any, of leaderboards, recognition programs and campaigns as well as any other methods that have similar effect (including informally in branches or call centres) and ensure any continuing role in using these methods is consistent with the intention to de-emphasise sales relative to ethical behaviour and customer outcomes.

4. Governance – culture and conduct

Sedgwick Review recommendations:

Recommendation 9) Each bank formally examine its workplace culture and institute formal processes to redress any conscious or unconscious bias towards sales in preference to ethical behaviour and customer service.

Recommendation 11) Each bank ensure Managers reflect predominantly an ethical and customer focus when: communicating with staff; exercising any discretion while managing performance; and in allocating variable reward payments.

Recommendation 14b) Boards and Chief Executives ensure that effective, safe channels are in place to obtain feedback from frontline staff about their perceptions of the effectiveness of efforts to reform the bank's culture, performance managements and remuneration arrangements, including in respect of whistleblower arrangements.

5. Governance – senior executives and mid-level executives

Sedgwick Review recommendations:

Recommendation 13) Consistent with the objectives of the recommendation for frontline staff, the variable reward payments and performance management arrangements of all senior and (retail bank) middle level executives be based on: their overall performance against a number of measure that reflect the nature and breadth of their role; with customer oriented, ethical behaviour and non-financial measure accounting for the dominant factors in that assessment.

6. Third party remuneration – governance

Sedgwick Review recommendations:

Recommendation 17) Banks adopt, through negotiation with their commercial partners, an ‘end-to-end’ approach to the governance of mortgage brokers that approximates as closely as possible a holistic approach broadly equivalent to that proposed for the performance management of equivalent retail bank staff.

Recommendation 20a) In respect of Introducers and Referrers: banks examine their governance of these arrangements to ensure that existing practice are appropriate.

Recommendation 21) Banks that provide products or services through Franchisees examine their governance and, as appropriate, remuneration arrangements and seek to make changes that are consistent with the recommendations of this Review.

7. Third party remuneration – incentives

Sedgwick recommendations:

Recommendation 16) In respect of remuneration of Mortgage Brokers: banks cease the practice of providing volume based incentives that are additional to upfront and trail commissions; banks cease non-transparent soft dollar payments in favour of more transparent methods to support training etc; and banks cease the practice of increasing the incentives payable to Brokers when engaging in sales campaigns.

Recommendation 18a) Banks adopt approaches to the remuneration of Aggregators and Mortgage Brokers that do not directly link payments to loan size and reflects a holistic approach to performance management.

Recommendation 21) Banks that provide products or services through Franchisees examine their governance and, as appropriate, remuneration arrangements and seek to make changes that are consistent with the recommendation of this Review.

Appendix F

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
- Bendigo and Adelaide Bank (including Rural Bank)
- Citigroup Australia
- Commonwealth Bank of Australia
- Defence Bank
- HSBC
- ING Direct
- Macquarie Bank
- ME Bank
- MyState Bank
- National Australia Bank
- Qudos Bank
- Rabobank
- Suncorp Group
- Westpac Banking Corporation

Other stakeholders:

- Australian Banking Association
- Australian Securities and Investments Commission
- Australian Small Business and Family Enterprise Ombudsman
- Finance Sector Union

Appendix G Individual bank implementation status

Relevant Milestone ³⁶	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	✓	✓	✓	✓	✓	✓	✓	- 37	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Key: ✓ Implementation complete ⌚ Progressing implementation - Not progressing implementation

³⁶ Reference to implementation of the Banking Code of Practice is not included in this table as it is yet to be approved as explained in Section 3.4. Following approval of the Code, the subscribing banks have committed to implementing changes within 12 months. All subscribing banks have reaffirmed their confidence in achieving this deadline.

³⁷ Citigroup has confirmed that, while it unreservedly encourages and supports the objectives of the Protocol, without the benefit of legislative backing, it cannot implement the Protocol due to its concern of unintended consequences of creating a clear conflict between the application of current Australian employment law and the self-regulatory Protocol as constructed. Citigroup has submitted a practical alternative to the Protocol to the ABA for consideration. In the meantime, Citigroup has stated that it will continue its own rigorous background checks on potential employees'.

Appendix H

Glossary and abbreviations

Term	Definition
ABA	Australian Banking Association (formerly known as the 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

