

Independent governance expert report

Australian banking industry: Package of initiatives

Report 7

Ian McPhee AO PSM

18 January 2018

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

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

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Executive summary

In April 2016, in response to industry concerns about a growing gap between performance delivered by banks and that expected by customers, the Australian banking industry committed to the delivery of six initiatives to better protect consumer interests, increase transparency and accountability, and build trust and confidence in banks – subsequently referred to as the Banking Reform Program. The industry’s initiatives were targeted broadly so as to improve its performance in working with customers and key stakeholders, and included:

- Strengthening alignment of remuneration and incentives and customer outcomes;
- 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.

Essentially, the initiatives being progressed are of two kinds – those with an emphasis on preventative approaches that are designed to avoid poor outcomes occurring in the first place; and those where the banks will provide more effective channels for customers to raise complaints, and employees to feel more confident they can report inappropriate behaviour without fear of adverse consequences. Collectively, these initiatives have been well-targeted and have been generally well received by stakeholders. While the industry recognised it needed to do considerably better, it should be recognised that it is also in the best interests of customers for them to take an active role in informing themselves about the financial services they receive and managing their interests. A wider understanding of the two-way bank-customer relationship, underpinned by the stronger contribution that the banks have committed to through the reform program, is essential to many of the outcomes the industry is pursuing. There is also a continuing role for governments and the industry here in supporting measures which result in improved levels of financial literacy in the community.

The industry’s reform program has included measures within each initiative to be developed and delivered with a clear implementation timetable. The Australian Bankers’ Association (ABA) has co-ordinated much of the work required for the industry to deliver on the six industry initiatives, with individual banks and the ABA investing the resources required to achieve better outcomes in the longer term. My earlier reports have summarised the changes made to the implementation plan since its inception, and provided commentary on the more significant changes.

The ABA has advised that, in the last three months, the industry has further shifted from design and review to implementation of the initiatives, with a view that each initiative either be completed or have established implementation processes in train by April 2018, two years after the initial industry announcement. Currently six of the 13 planned measures have been completed, with an additional four measures where industry-led work is complete at this time but final implementation is dependent on statutory underpinnings. Three measures remain outstanding. Of these three, the one relating to the publication by each bank of overarching principles of remuneration and incentives requires adjustment to the original implementation plan as not all banks have published their overarching principles by the 31 December 2017 deadline; the six outstanding banks having committed to do so by April 2018. 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 (Banking Code). The initiatives to which these measures relate have involved significant independent reviews, followed by further consultation, analysis and development (including rewriting of the Banking Code), and will take time to embed once individual bank policies have been established.

The ABA's timetable, aligned to the recommendations of the Sedgwick Review, provides for the revised remuneration arrangements to be in place for retail banking operations by the performance cycle commencing in 2020. The implementation plan for the revised Code of Banking Practice is yet to be finalised, pending ASIC's approval of the new Code. Nevertheless, banks have committed to implementing the new Banking Code within 12 months from ASIC's approval. In the main, good progress has been made by the industry to date, with stakeholders consulted as part of this review particularly welcoming the transparency shown by the banks in their reporting of progress in implementing revised remuneration policies – covered further in Chapter 3.

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 Banking 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 latest Edelman Intelligence report notes that six months on from their initial report in June 2017, consumers' perceptions towards the banking industry are improving. The latest research shows consumers' trust in their main bank has increased by 3 percentage points to 56% since June 2017, whereas trust in the industry has increased by 1 percentage point to 32%¹. Some of the leading banks are 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 has participated in the Edelman Intelligence survey of employees; the industry is yet to determine its longer term position on reporting of employee survey results.

The extent of the reform program both at the industry and individual bank levels has required sound approaches to governance to keep the reform program on track. While mention has been made of the resource demands of the reform program by some of the smaller banks, advice from all banks to this review has been positive as to the progress being made. The Chief Executive Officers of all banks consulted have been supportive and committed to achieving better outcomes for customers, recognising where their policies and practices needed upgrading. It was also evident from these consultations that bank boards were being kept informed of progress, and providing support to the reform program. Nevertheless, there is a need for the industry to maintain a clear focus on the commitments made to avoid any fragmentation of delivery and impact.

It has 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 is apparent that banks are often taking a wider view of the reform measures where this will 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 is also apparent that some boards are giving explicit sanction and support to the repositioning of the importance of a strong customer focus going forward. This was clearly evident in the recent statement by

¹ Available at <http://www.bankers.asn.au/media/research-papers/>

Mr David Gonski AC, Chairman of the Australia and New Zealand Banking Group Limited (ANZ), at the bank's annual general meeting:

It is clear that in order to rebuild trust, business has to step outside our traditional role as solely shareholder-focused organisations, and work in new ways that also put our customers and our communities at the centre of everything we do.

While positively focussing on the renewed importance of a strong customer focus by business, this statement also demonstrates the importance and benefits of those in leadership roles stepping up to show the way forward in an era of change. It has been noteworthy that those in leadership roles in the banking industry have been more visible on this front in recent times – a key means of effectively communicating industry initiatives and the basis for them. This to be encouraged at the senior levels of the industry so that through these and other complementary measures, customers are aware of the steps being taken by the industry and individual banks; and employees and other stakeholders appreciate the importance of, and priority being accorded to, the various initiatives. While there is still more to be done by the industry to embed the reforms, 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 has been very worthwhile to see the improvements introduced to date, or in prospect, that are designed to lift the industry's performance. The early signs are showing positive results but it is important that the industry make every post a winner in terms of the commitments it has made. The corollary is 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.

During the design and rollout of these initiatives, it has been evident that other factors necessarily have to be taken into account by the industry as it moves forward given its key role in the Australian economy and past concerns expressed about the industry's treatment of customers. Most recently this has been the establishment of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry announced by the Australian Government. Prior to the establishment of the Royal Commission, the Australian Parliament and various government bodies commenced or had in train a number of inquiries and reviews that have influenced the manner in which some of the initiatives have been designed or implemented. The industry has indicated however that it remains resolved to continue embedding and continuously improving the reforms initiated through the Banking Reform Program and the Government's Banking Reform Package.²

² Refer 2017 Federal Budget at http://budget.gov.au/2017-18/content/glossies/factsheets/html/FS_Banking.htm

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1 Introduction

1.1 Industry initiatives to strengthen community trust

This is the seventh, and penultimate report on the banking industry's package of initiatives to protect consumer interests, increase transparency and accountability, and build trust and confidence in banks.

The initiatives, and their associated objectives, are:

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

Objective – Strengthen the alignment of remuneration and incentives and customer outcomes.

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

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

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

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

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

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

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

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

Initiative 6: Supporting ASIC as a strong regulator.

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

Detailed measures have been developed for each initiative, which are outlined in the implementation plan at Appendix A, together with milestones for completion. Twenty³ of the ABA member banks confirmed their active participation in the package of initiatives, and are listed in Appendix B.

³ 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.

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

The ABA appointed me as an independent governance expert to report quarterly on the progress of the industry in implementing its announced package of initiatives, while at the same time maintaining a focus on the industry objectives of protecting consumer interests, increasing transparency and accountability, and building trust and confidence in banks. The term of my appointment has been extended to April 2018, which will mark two years since the announcement of the package of industry initiatives.

The terms of my engagement are available on the ABA website.⁴ 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. Key stakeholder groups are also approached for comment during the preparation of each report.

My previous report (Report 6) was issued on 20 October 2017⁵ and reported steady progress, noting that:

- 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;
- Four banks had published their overarching principles on remuneration and incentives ahead of the scheduled December 2017 deadline. The ABA had also progressed the development of an external reporting framework for those elements of Initiative 1 (Reviewing product sales commissions and product based payments) where the implementation timetable extended out to 2020 so as to provide the basis for periodic reporting by individual banks; The ABA made one revision to its implementation plan, indicating that it would not be preparing at that time industry-level guiding principles on remuneration. While recognising this was a matter for decision by the industry, I viewed it as a lost opportunity to demonstrate strong leadership in an area which has traditionally had a high profile;⁶ and

⁴ Available at <http://www.bankers.asn.au/media/media-releases/media-release-2016/letter-of-engagement>

⁵ Available at https://www.betterbanking.net.au/wp-content/uploads/2017/10/ABA-Report-6_Final-20_10_17.pdf

⁶ Subsequently, in commenting on this issue, the ABA confirmed to me the industry's commitment to implement the Sedgwick recommendations in full.

- A number of the participating banks had taken a broader view of the measures, and either sought to extend them to other parts of their operations beyond retail banking or further build on the ‘minimum required standards’ established by the ABA.

The report also noted the publication of independent banking industry research on consumer views in relation to the core objectives of the package of initiatives was unprecedented for the industry, not least because of the commitment to publish updated data from January 2018. The research confirmed customers have low levels of trust, confidence and transparency in the banking industry, however the research also identified that 53% of those surveyed showed trust in their main bank compared to 31% for the banking industry. 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.

The next report of this review, Report 8, is scheduled to be issued by no later than 21 April 2018 and will be my final report in the series.

2 Industry implementation progress

2.1 Introduction

The status of industry-level measures, comprising the principles, policies and/or frameworks to guide the industry and individual banks in tailoring approaches to the achievement of the industry objectives, is summarised in this chapter. In addition, this chapter also provides an update on progress and results of the industry-level performance indicators to evaluate the success of the package of initiatives.

2.2 Update on progress of initiatives

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

Initiative 1: Reviewing product sales commissions and product based payments

The independent review of product sales commissions and product based payments by Mr Stephen Sedgwick AO (the Sedgwick Review) proposed 21 recommendations for banks to consider in setting remuneration policies for their retail banking operations, in addition to reporting their progress in implementing those recommendations through to the performance period commencing in the year 2020. In order to fulfil this reporting commitment, the ABA has developed an external reporting framework for the industry to track progress against each of the Sedgwick Review recommendations.

The external reporting framework comprises seven categories, each encompassing a number of the more detailed recommendations of the Sedgwick Review, as outlined in Figure 1.

Figure 1: Categorisation of Sedgwick Review recommendations⁷

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.

⁷ The ABA categorised each of the recommendations of the Sedgwick Review to develop the external reporting framework. Further detail on each recommendation is available in the report of the independent review of product sales commissions and product based payments in retail banking in Australia (Sedgwick Review) available at http://retailbankingremreview.com.au/wp-content/uploads/2017/04/FINAL_Rem-Review-Report.pdf

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.

The progress of participating banks against each element of the external reporting framework is set out in Chapter 3. The ABA has advised that the external reporting framework and template will be reviewed on an ongoing basis and no less than every 12 months to:

- Ensure a comparable approach to, and level of detail of, reporting between banks;
- Enable banks to report on the effectiveness of how their remuneration, governance, and performance management arrangements are operating (e.g., how changes to scorecards are affecting customer outcomes); and
- Consider whether external benchmarking or external assurance is required to support the objectives of the reporting framework.

All participating banks have committed to implementing all of the Sedgwick Review recommendations by the commencement of their reporting cycles in 2020.

The Finance Sector Union (FSU) has reported to me their continued concern that without stringent external oversight of the implementation of the Sedgwick Review recommendations, individual banks will make cosmetic changes to remuneration practices without addressing underlying cultural and systemic factors. The FSU also commented that the decision by the ABA, after feedback from member banks, not to pursue industry guiding principles for remuneration can be described as a failure of the industry to genuinely address the issues identified by the Review. As noted above, I have described this decision not to pursue industry guiding principles for remuneration as ‘a lost opportunity (by the industry) to demonstrate strong leadership in an area which has had a high profile by building on the momentum for change stimulated by the Sedgwick Review and ASIC’s report on mortgage broker remuneration.’. In commenting on this issue, the ABA confirmed to me the industry’s commitment to implement the Sedgwick recommendations in full.

As noted in my previous report, the ABA convened the Combined Industry Forum (CIF), in conjunction with the mortgage industry associations, to address the recommendations of the Sedgwick Review and ASIC’s Review of Mortgage Broker Remuneration pertaining to incentive mechanisms for third party providers. The CIF also includes consumer representatives and mortgage industry participants.

On 11 December 2017, the CIF publicly released its report to ASIC, Treasury and the Minister for Revenue and Financial Services on the industry reform package. As outlined in the CIF’s report *Improving Customer Outcomes: The Combined Industry Forum response to ASIC Report 516: Review of mortgage broker*

remuneration,⁸ the industry has established six principles to be implemented in order to achieve better consumer outcomes and improved standards of conduct and culture, while at the same time preserving competition in mortgage broking.

These six principles encompass:

- **Changes to commission structures:** The standard commission model will avoid financial incentives that encourage consumers to borrow more than they need or will use, for example by basing commissions on facility draw down net of offset;
- **Addressing bonus commissions and volume-based payments:** Volume-based and campaign-based commissions paid by lenders and aggregators are recognised as raising potential conflicts of interest and poor customer outcomes and are expected to cease;
- **Implementing changes to tiered service models and eligibility of non-monetary benefits:** Non-monetary benefits will only be given based on a balanced scorecard and good customer outcomes, and benefits given by lenders will be capped;
- **Implementing the new ownership disclosure:** Ownership models and commercial relationships will be made clear on all marketing materials, including websites, where ownership is greater than 20 per cent, so consumers have the right information to make informed choices;
- **Implementation of new public reporting framework:** ASIC and consumers will be given clearer information on where loans are written, commissions paid and interest rates, to increase transparency and accountability in the industry; and
- **Establishment of governance frameworks:** The industry will introduce an improved Governance Framework that monitors for, and identifies risks, and requires the industry to take action and continuously improve where issues are identified.

In addition, the CIF's report set a standard definition for 'good customer outcomes' which is:

"The customer has obtained a loan which is appropriate (in terms of size and structure), is affordable, applied for in a compliant manner and meets the customer's set of objectives at the time of seeking the loan."

The work in this area is an important collaboration and provides a foundation for the participating banks to address the third party recommendations of the Sedgwick Review. The ABA has advised that the work program for the CIF will continue through 2018, focusing on additional self-regulatory initiatives and an appropriate mechanism to achieve a self-regulatory outcome, including further consideration of any remaining principles from the Sedgwick Review not yet fully aligned.

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

This initiative had four parts comprising: 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.

⁸ Available at https://www.mfaa.com.au/sites/default/files/users/user130/CIF_Report_Submitted_281117_o.pdf

As previously reported, industry-level work on the customer advocate and customer remediation measures for this initiative is now complete. The ABA has advised that it has continued to monitor developments on the final two measures of Initiative 2 where the next phases are reliant on government, as explained hereunder.

Following the Senate Economic References Committee final report, released on 17 October 2017, recommending the legislation be passed to establish the Australian Financial Complaints Authority (AFCA), the ABA has advised that it expects this to be voted on in the House of Representatives in February 2018. In its submission to my review, the ABA has also advised that it is working with both Treasury and the Financial Ombudsman Service (FOS) regarding the transition of external dispute resolution functions to AFCA.

Further, the Supplementary Final Report of the Review of the financial system external dispute resolution framework (Ramsay Review)⁹ was publicly released on 20 December 2017 recommending the establishment of a prospective last resort compensation scheme covering financial advisers. The ABA has welcomed its release and the recommendation for a prospective Compensation Scheme of Last Resort (CSLR) covering financial advisers, noting that recommendation substantially aligns to the position advocated by the industry in its submission to the Ramsay Review. The adoption and timing of the CSLR is now a matter for government.

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

With the adoption of the ABA's *Guiding Principles – Improving Protections for Whistleblowers* by all participating banks, the milestone steps for this initiative are now complete. The recommendations of the Parliamentary Joint Committee on Corporations and Financial Services into whistleblower protections in the corporate, public and not-for-profit sectors, outlined in Report 6 have been adopted into draft legislation. The ABA and participating banks made submissions to the exposure draft of the legislative revisions, and will make necessary amendments to the Guiding Principles following passage of the legislation, expected in February 2018.

Initiative 4: Removing individuals from the industry for poor conduct

The industry proposed two measures within its revised implementation plan to address the objective of Initiative 4. Recognising that any potential industry register would pose complex legal issues, 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. To date, 19 banks have implemented the Protocol.¹⁰

The Protocol currently covers subscribing member banks of the ABA, however the ABA advised that, following a post implementation review of the Protocol scheduled for July 2018, the ability to extend the Protocol to non-bank bank financial institutions will be explored with other industry associations. The ABA

⁹ Available at <https://static.treasury.gov.au/uploads/sites/1/2017/11/Supplementary-Final-Report-2.pdf>

¹⁰ Citigroup has advised that, while it unreservedly encourages and supports the initiatives addressed by the Protocol, it preferred an alternative approach due to concerns over creating a conflict between the application of current Australian employment law and the self-regulatory Protocol as constructed. Nevertheless Citigroup has stated that it will continue its own background checks on potential employees.

also advised that, through a forum of subscribing banks, some of the implementation challenges that have arisen through the Protocol are being addressed.

The FSU has indicated to me that the Protocol continues to be an ongoing concern for the union and its members. The FSU maintains that a process that has statutory underpinning is the only way that the right people are removed from the industry for the right reasons. The FSU has advised that their experience of the operation of the Conduct Background Check to date does not give its members confidence that the Protocol is able to be implemented in a way that does not have unintended consequences on employees, who should not lose their careers without proper review mechanisms.

The ABA has advised that banks using the Protocol have noted the process does bring to light a range of important matters relating to potential job candidates and gives banks more information to make informed recruitment decisions. While the industry continues to support the development of a statutory register, the ABA has indicated that it will now await the outcomes of other inquiries and reform processes, including the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, given the potential for significant changes to the regulatory landscape to occur. The ABA expects that any further work on a statutory register would commence by June 2019.

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

At the outset of the package of industry initiatives, the measures associated with redrafting of the Code of Banking Practice (Banking Code) by December 2017 was viewed as being ambitious. It is therefore a commendable achievement that the industry has delivered a revised Code in such a timely manner given the work involved and the amount of stakeholder consultation required.

The ABA has confirmed that the revised Code incorporates 96 of the 99 recommendations,¹¹ in full or in part, made by Mr Philip Khoury (Khoury Review). As part of the redrafting process, the industry also considered the following reviews and inquiries:

- The recommendations made by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) (Carnell Inquiry);¹²
- Treasury consultation on *Credit cards: improving consumer outcomes and enhancing competition*;¹³ and
- Senate Select Committee report on lending to primary production customers (December 2017).¹⁴

Through my discussions with bank Chief Executive Officers, and as advised by the ABA, the changes to the Code of Banking Practice (to be renamed the Banking Code of Practice or Banking Code) have sought to convert the Code into a

¹¹ Those recommendations not adopted are: Recommendation 35, 44 and 63.

¹² Inquiry into small business loans, 12 December 2016. Report available at http://asbfeo.gov.au/sites/default/files/030217-ASBFEO_Report.pdf

¹³ Credit Cards: Improving Consumer Outcomes and Enhancing Competition, available at <http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/Credit-card-reforms>

¹⁴ Senate Select Committee on Lending to Primary Production Customers, December 2017, available at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Lending_to_Primary_Production_Customers/LendingPrimaryProduction

document that is more consumer oriented that can be better understood by customers and the industry. Key changes include:

- The existing Code has been completely rewritten – this has been the first ‘root and branch’ review of the Code since its creation in 1993;
- It has been converted into a plain English and ‘consumer friendly’ resource and restructured into 10 key parts and four brand new sections. The new structure follows the cycle of the customer relationship, which is intended to make it easier for a customer to find themselves in the Banking Code and help them get the right information at the time they need it;
- The Banking Code has a new set of overarching guiding principles, which sets the tone. The guiding principles are grouped into four categories: trust and confidence, integrity, service, and transparency and accountability;
- There are new sections dedicated to small businesses and inclusive banking;
- The Code Compliance Monitoring Committee (CCMC) is to be renamed the Banking Code Compliance Committee (BCCC) and given a clearer and more robust Charter.

In its media release on 20 December 2017,¹⁵ the ABA outlined a series of new commitments to customers which are included in the Code. These include:

For individuals

- Customers will be informed when a bank reports any payment default on a loan to a credit reporting body, making it easier for customers to manage their finances;
- On request, customers will be provided with a list of direct debits and recurring payments made on accounts. This can go back as far as 13 months and can assist customers with managing their accounts, avoiding dishonour fees and with switching;
- Improved transparency around fee disclosure by telling customers, where practical, about transaction service fees immediately before they incur the fee, helping customers better manage their costs; and
- Waiving or refunding statement fees for customers who do not have access to electronic statements.

For small businesses

- Small business customers will be provided with a longer notice period about changes to loan conditions or a bank’s decision on whether it will continue to provide the loan facility, which will help businesses with future planning;
- Simplified loan contracts that are written in plain English and are easier to understand; and
- Improved communication and greater transparency by banks in the use of external property valuers, investigative accountants and insolvency practitioners.

¹⁵ Available at <http://www.bankers.asn.au/media/media-releases/media-release-2017/customers-set-to-benefit-from-new-banking-code>

For guarantors

- Ensuring that guarantors are making an informed decision after taking time to consider the guarantee documents. Guarantors, who have not received legal advice, will be required to wait three days before signing, which may help customers avoid financial abuse; and
- Guarantors will be notified of changes to the borrower's circumstances, including if they are experiencing financial difficulty.

Throughout the process of redrafting the Code, the ABA and banks undertook extensive consultation with consumer stakeholders, industry and representative associations, as well as regular liaison with ASIC. The ABA has now applied to ASIC for approval of the Code under Section 1101A of the *Corporations Act 2001*.¹⁶ In discussions for the preparation of this report, Acting Chairman Mr Peter Kell noted that ASIC was encouraged by the level of engagement between ASIC and the ABA over the course of the redrafting process. He also noted that importance of the ABA's engagement with representatives of consumer and small business stakeholders as part of the redrafting.

In responding to the ABA's announcement, the ASBFEO identified particular areas for further improvement, including the self-regulatory nature of the Code overall. The ABA views these matters as being appropriately considered in the revised Code.

Very clearly, the work undertaken by the banking industry to revise the Code of Banking Practice is central to strengthening banks' commitment to customers. As such it is a significant milestone for the industry, recognising further work is still required by participating banks to align policies with the new Banking Code once it is formally introduced.

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. Recommendations by the 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 developments from Government in this area at the date of publication of this report.

Overall progress

The current status of measures supporting each initiative is summarised in Figure 2 below, with a comparison to the status reported in Report 6 (R6). Further information is provided in the implementation plan at Appendix A.

¹⁶ 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.

Figure 2: Implementation status of the trackable measures¹⁷

Milestone Status	Planning		Agreement of Principles		Complete Implementation	
	R7	R6	R7	R6	R7	R6
Complete	13	13	13	12	6	6
On track	-	-	-	1	1 ¹⁸	3
Adjustment required	-	-	-	-	1 ¹⁹	-
Date not yet specified	-	-	-	-	1 ²⁰	1
Next phase reliant on government	-	-	-	-	4	3
Total	13	13	13	13	13	13

With the completion of the Code of Banking Practice revisions, and its lodgement with ASIC, all of the ‘agreement of principles’ milestones for the package of industry initiatives are now complete.

As noted by the ABA, further work on development of a statutory register to address the remaining measure for Initiative 4 (Removing individuals from the industry for poor conduct) will now await the outcomes of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, and therefore the ‘complete implementation’ phase of this measure has moved to being ‘reliant on government for the next phase’.

Aside from those ‘complete implementation’ measures where the next phases are reliant on government, the remaining measures that will necessarily extend beyond April 2018 will be:

- Changes to banks remuneration structures to reflect the recommendations of the Sedgwick Review; and
- Banks to implement changes to improve the operation of the Code of Banking Practice within their individual organisations, which the participating banks have committed to implementing within 12 months of approval of the Code by ASIC.

Publication of overarching principles on remuneration and incentives by the remaining banks, while now overdue (as explained in Section 3.2), is expected to be completed by April 2018 based on advice from the relevant banks.

¹⁷ Quantification and summary status of milestones is based on the information outlined in the implementation plan contained in Appendix A.

¹⁸ Measure 1.3: Work with regulators to implement changes and, where necessary, seek regulatory approval and legislative reform – see further in Chapter 3.

¹⁹ 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 – see further below and in Chapter 3.

²⁰ Measure 5.2: Work with banks to implement changes to improve the operation of the Code of Banking Practice within their individual organisations – see further in Chapter 3. Banks have committed to implementing the new Banking Code within 12 months from ASIC’s approval.

2.3 Industry-level performance indicators

In mid-2017, the ABA appointed Edelman Intelligence to measure the outcomes of the reform program at an industry level. The research was to be undertaken in two waves, with the first wave involving consumer research and the second wave incorporating the perspectives of both consumers and bank employees. The first Edelman report on consumer research, conducted in June 2017, was published on 28 August 2017 and was referred to in Report 6.

The second Edelman Intelligence report on consumer research, released on 18 January 2018,²¹ notes that six months on, there are some signs that consumers' perceptions towards the banking industry are improving. Consumers are feeling more positive about the direction that the banking industry is headed. Measurements on banks becoming more customer-focused and helping customers navigate choices to make the best decisions for themselves, have increased with 77% of consumers thinking their main bank 'is becoming more customer-focused' (up 14 percentage points since June 2017) and 44% of consumers now feel the industry is headed in the right direction (up 5 percentage points since June 2017). The June 2017 report identified that 53% of those surveyed showed trust in their main bank compared to 31% for the banking industry. The latest research shows consumers' level of trust in their main bank has increased by 3 percentage points since June 2017, whereas trust in the industry, has increased by 1 percentage point.

In addition to the consumer survey, Edelman Intelligence also conducted a survey of bank employees to help banks identify how they can further embed the initiatives within their organisation. Other than the four major banks, only one other bank has participated. As a limited number of banks took part, the survey is not fully representative of employee attitudes across the industry and accordingly the industry does not intend to publish the research incorporating the perspectives of employees. Rather, the report is to be used by participating banks to assess how well the reform program initiatives are understood and what further steps those banks can take to further embed the initiatives within their bank. The industry is yet to determine its longer term position on reporting of employee survey results.

The results of the Edelman Intelligence consumer survey are encouraging in so far as improvements in the indicators since June 2017 have been reported. It has been noteworthy that, amongst other developments, those in leadership roles in the banking industry have been more visible in stepping up to show the way forward in recent times – a key means of effectively communicating industry initiatives and the basis for them. This to be encouraged at the senior levels of the industry so that through these, and other complementary measures, customers are aware of the steps being taken by the industry and individual banks, and employees and other stakeholders appreciate the importance of, and priority being accorded to, the various initiatives.

From the industry's reform program, as well as the results of the Edelman research, it is clear that the longer-term goal inherent in the various industry initiatives is the importance of embedding the central focus on customers in the way business is done into the culture of each bank. This should not be viewed as a milestone or an end-point but as an enduring goal that will need to be supported by strategies responsive to the times, and reinforced by those in key leadership roles on an ongoing basis.

²¹ Available at <http://www.bankers.asn.au/media/research-papers/>

2.4 Concluding remarks

In the main, this has been another quarter of good progress by the industry in closing out deliverables under the package of initiatives, or making further progress on those measures that will extend beyond the timeframe of my review. Nevertheless, there is a need for the industry to maintain a clear focus on the commitments made to avoid any fragmentation of delivery and impact.

The most notable accomplishment since my last report (Report 6) has been completion of the rewriting of the Code of Banking Practice, pending approval by ASIC. This has been a significant undertaking given the ambitious timeframe originally set for its completion, and represents a substantive effort by the ABA and participating banks to capture in plain English banks' commitments to their customers.

Furthermore, it is encouraging to see the progress the industry is making towards addressing the recommendations of both the Sedgwick Review and ASIC's review of mortgage broker remuneration. Publication of the CIF's report *Improving Customer Outcomes: The Combined Industry Forum response to ASIC Report 516: Review of mortgage broker remuneration* is a milestone in collaboration between participants in this sector of the industry and a positive step forward.

The results of the latest Edelman Intelligence survey of consumer trust and confidence in banks are encouraging. The industry does not intend to publish the results of the survey of bank employees as only a limited number of banks took part and the survey is not fully representative of employee attitudes across the industry. The industry is yet to determine its longer term position on reporting of employee survey results.

In comments to my review, the Australian Small Business and Family Enterprise Ombudsman, Ms Kate Carnell AO, noted "The progress to date, introduction of customer advocates, whistleblower protections and continued consultation on redrafting the Code of Banking Practice are all valuable steps for restoring confidence and trust ... Banks will only be seen to be making changes if they report progress publicly. This will enable customers to hold their banks accountable and (for the banks to) display a real willingness to improve culture." This underlines the importance of the reporting frameworks being put in place to continue to monitor both progress of the remaining initiatives, as well as continuing to publicly report measures of trust and confidence.

The trend for banks to reflect on whether their culture is sufficiently attuned to embedding a focus on customers in the way business is done is also to be encouraged. It will also address the risk expressed by one of the banks that some of the initiatives could be seen as 'sugar coating' the real issue being the culture in the major banks. Irrespective of the nature and significance of risks, there is little doubt that all banks would agree that achieving the right organisational culture is critical to their goals, so it is a topic deserving close consideration by all banks on an ongoing basis.

3 Implementation by the banks

3.1 Introduction

This chapter summarises the progress made by the 20 participating banks in completing implementation of those measures for which they are individually responsible. This is based on feedback received from bank Chief Executive Officers, with all participating banks providing submissions.

3.2 Progress on initiatives

It is important to acknowledge up front that not all measures pertaining to each of the initiatives reflect new approaches requiring implementation by each bank. In some cases there have been similar approaches adopted or functions in place for many years e.g. relating to remuneration or Customer Advocates. That said, it has nonetheless been prudent for each bank to review their current approaches or functions to ensure they meet the standards expected by the industry today, and this has been the approach generally adopted and expected of banks in these circumstances.

The primary focus of the banks' efforts over the course of the quarter since my last report, issued on 20 October 2017, has been further progressing measures related to the independent review of product sales commissions and product based payments (the Sedgwick Review) as well as contributing to the task of redrafting the Code of Banking Practice. These and other measures have been progressed by individual banks at the time of the lead-up to and announcement of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry on 30 November 2017.²² Based on my discussions with the Chief Executive Officers and their submissions to my review, there is no doubt that the Royal Commission will represent a significant focus for the participating banks. However, the Chief Executive Officers have reiterated their commitment to progressing the ABA's package of industry initiatives, embedding the measures through cultural change and continuing to monitor progress at senior executive and board levels. It has been apparent from my discussions during the course of these quarterly reviews that the Chief Executive Officers firmly believe these measures to be in the best interest of customers, and essential to restoring trust and confidence in the banking industry.

To have confidence that measures are being implemented effectively, banks have advised of steps being taken internally to have appropriate oversight, such as the following approach advised by the ANZ Bank:

- 1) Established an industry reform program team led by a senior internal project manager and reporting to the General Manager, Australia Division Services;
- 2) Assessed the complexity of business impacts of change; and
- 3) Prepared detailed scoping papers for sign-off by responsible General Managers across the business.

²² Refer to <https://www.pm.gov.au/media/royal-commission-banks-and-financial-services>

Initiative 1: Reviewing product sales commissions and product based payments

During the current quarter, the participating banks have made further progress in analysing and/or implementing measures to align remuneration and incentive policies and practices within their retail banking operations to the recommendations of the Sedgwick Review. In addition, 14 of the participating banks advised that they have published their overarching principles on remuneration and incentives in accordance with the implementation plan.

The status of participating banks in implementing the recommendations of the Sedgwick Review to their retail banking operations, based on advice from bank Chief Executive Officers, is presented in the external reporting framework set out in Figure 3.

Figure 3: Sedgwick Review – External reporting framework

Sedgwick Recommendation ²³	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

The above status is based on self-assessment by individual banks, and each of the categories in the table is a combination of several recommendations of the Sedgwick Review (as set out in Section 2.2 above). Some banks have advised they have taken a conservative approach in making their assessment at this time.

²³ Reconciliation of the 21 detailed recommendations of the Sedgwick Review to the categories outlined in the ABA's external reporting framework is outlined in Figure 1 of Section 2.2

Collectively the banks have reported the greatest progress on those recommendations related to the variable reward payments and performance management arrangements of all senior and (retail bank) middle level executives and retail bank staff. The majority of banks reported that these recommendations are either complete, or substantial alignment of policies and practices has been achieved.

In contrast to the variable reward payments and performance management arrangements of all senior and (retail bank) middle level executives and retail bank staff, the Sedgwick Review recommendations relating to banks' arrangements with third parties are least progressed, with a number of banks reporting that they are still in the planning phases. This reflects the time taken to establish the Combined Industry Forum and agree industry-wide responses. However, through the work of the Combined Industry Forum, practical measures to better align to the recommendations of both the Sedgwick Review and ASIC's Report on Mortgage Broker Remuneration are being progressed, as noted in Section 2.3.

It is acknowledged that changes to remuneration and incentive arrangements are a complex and significant undertaking, and this is the first status report on a program of work that is scheduled for completion in 2020. While some banks are more advanced than others, not all banks started from the same position and the extent of change required by individual banks is likely to vary significantly. As a result it is not appropriate to draw early conclusions on the status of individual banks' implementation programs, aside from noting that all banks have advised they are progressing work required to meet their commitments to the Sedgwick Review recommendations and progressing action plans to deliver changes, where necessary. Stakeholders consulted as part of my review have welcomed the transparency shown by the banks in their individual reporting against the Sedgwick Review recommendations.

The final milestone deliverable under Initiative 1 is the identification, development and publication of banks' overarching principles on remuneration and incentives, scheduled for completion by 31 December 2017. All but six banks²⁴ have reported that their overarching principles have been published either through their annual report, or on their website. The six remaining banks yet to implement this measure have indicated that their overarching principles will be published by April 2018.²⁵ This is a disappointing development given the attention devoted to this initiative by those participating banks that achieved this milestone step, as well as the level of public interest in this area as mentioned earlier in section 2.2. Further details on the implementation status by individual banks is given in Row 2 of Figure 4 within the 'Overall progress' section of this Chapter.

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

The participating banks continue to view the work performed by their Customer Advocates positively, with many reporting close collaboration between the customer advocate function and various other functions within the bank to improve the customer experience. Some banks have extended the charter of their advocate functions to proactively collaborate with community stakeholders, such as the Commonwealth Bank where the Customer Advocate has established a 20-member Community Council to obtain more insights from customers. Similarly ANZ Bank has advised that its Customer Advocate has actively engaged with

²⁴ The six banks are: AMP Bank, Arab Bank, HSBC, ING Direct, MyState and Qudos Bank

²⁵ Some of these banks have advised that overarching principles on remuneration have previously been published however are in the process of making further updates. This partly reflects their annual cycle of policy updates.

consumer stakeholder groups and the Financial Ombudsman Service to gain further insights relevant to its role.

Westpac Banking Corporation has illustrated how it is integrating its customer advocate function with other elements of the package of industry initiatives, as outlined in Case Study A below.

Case Study A: Supporting our customers with mental illness

At Westpac, access and inclusion is a priority in how we deliver our products and services to customers and the community so that everyone can reach their full potential regardless of their individual requirements. Westpac is committed to taking steps to ensure we provide accessible banking services for all of our diverse customers and ensuring that we support our vulnerable customers.

Westpac has implemented additional measures to ensure that customers who experience mental health issues are provided a greater level of support. Westpac recognises that often people who are suffering mental health issues may have no, or limited, real support (for example, family or friends) to help them through the challenges they are facing. To improve the support we provide to our vulnerable customers, we are now liaising with local community mental health centres and also with other mental health professionals to ensure we better understand the customer's circumstances and to ensure that they get the support they need. We have also engaged external mental health professionals to support those teams in the Group dealing with vulnerable customers to ensure they better understand the issues those customers can face and how best to provide support.

The Customer Advocate was recently able to use these learnings to take an empathetic approach to a customer. We became aware that a customer, who lived alone and had no immediate family, had stopped making payments on a loan and over time he became unresponsive to communication. His neighbours said they rarely saw him. The matter came to the Customer Advocate because the customer was extremely vulnerable. We soon realised that the customer had both physical and mental health disabilities and required help. With the customer's permission, we then took action through our outreach team to locate and engage with his brother, the local area community mental health centre, community groups like meals-on wheels and also Centrelink, to help our customer obtain the family and community support he needed, including the help he needed to find sustainable and appropriate accommodation.

In addition to working within their individual banks, the Customer Advocates periodically attend Customer Advocate Forums to discuss the various approaches to the customer advocate functions, share 'best practice' and discuss challenges faced by the Customer Advocates in their role. In particular the smaller banks have commented that the Customer Advocate Forum has been a very effective mechanism to continue to advance customer centric behaviours within the participating banks, particularly drawing on the experiences of the major banks' Customer Advocates.

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

All participating banks reported having their whistleblowing policies in place, in accordance with the ABA's *Guiding Principles – Improving Protections for Whistleblowers*. A number of the participating banks have advised that they are considering further amendments to their whistleblowing policies given the Treasury Laws Amendment (Whistleblowers) Bill 2017 Exposure Draft, with many providing input into the ABA's industry submission.

Overall, banks have commented that their staff have embraced the expanded policy, and believe it is working in line with expectations. The cross-bank Whistleblowing Forum has been primarily focused on developing the industry's submission to the draft whistleblower legislation. As this Forum develops, it may be beneficial for some level of engagement with the Customer Advocate Forum as it has been in place for a little longer and has been viewed positively by many banks

for taking a proactive role in identifying thematic issues and then encouraging actions within the bank to prevent recurrence.²⁶

Initiative 4: Removing individuals from the industry for poor conduct

As noted in Chapter 2, further work on a statutory register is now viewed by the ABA as awaiting the outcomes of other inquiries and reform processes, including the Banking Executive Accountability Regime, proposed ASIC banning powers for senior officials and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Meanwhile the participating banks are continuing to use the *Conduct Background Check Protocol* as a means of identifying and addressing poor behaviour moving around the industry and ensuring hiring banks have better information to make their own informed recruitment decisions.

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

As noted in Chapter 2, revisions to the Code of Banking Practice to adopt recommendations of the Khoury Review are well progressed. Many of the participating banks have made significant resource commitments to work with the ABA to finalise revisions to the Code of Banking Practice. This is in addition to establishing internal project teams to analyse the extent of change required under the revised Code, or progress early implementation of measures to align with the recommendations of the Khoury Review.

The major banks in particular are well advanced in their planning, and recognise the complexity associated with some of the changes. Several banks have taken early steps to implement a range of measures recommended by the Khoury Review. These include:

- Deferring the sale of Consumer Credit Insurance (CCI) sold on credit cards in branches or over the phone for four days; and
- Making changes to small business contracts by major banks.

In addition, banks continue to implement changes which are complementary to the changes in the Banking Code. These include:

- Programs to identify and assist customers experiencing financial hardship or otherwise vulnerable circumstances;
- Developing best practice responses to address accessibility to banking products for disabled customers or those with mental illnesses; and
- Training bank staff to identify and assist in cases of elder financial abuse or other instances of family/domestic financial abuse.

National Australia Bank (NAB) has provided an example of the how it has taken early steps to implement the findings of the Khoury Review, illustrated by Case Study B.

²⁶ Refer to Section 3.2 of Report 5

Case Study B: Simplification and transparency – overhaul of NAB business standard form contracts.

A core part of who we are at NAB is backing Australian businesses in the moments that matter- so overhauling our NAB Business Standard Form Loan contracts was a critical priority for us.

NAB’s existing Business Letter of Offer was long and complicated, and felt very transactional and legalistic. NAB wanted to make sure that in the re-designed contract, commitments to customers were clearly set out. Things like promising to act fairly and responsibly, and ensuring the contract itself was transparent and easy to understand.

NAB’s research told us that 49 per cent of small to medium business owners say that dealing with bigger companies makes it tough for their business to succeed. NAB believes it has a role to play in making dealing with us simpler and easier. Overhauling these contracts is one such way that NAB can give its small business customers some time back in their day.

Listening and responding to customer feedback formed the crux of the contract re-design. To achieve this NAB ran a number of specific customer/banker focus groups, where NAB teams sat down with customers and worked on how the contracts could be improved.

Some of the things our customers told us is detailed below:

- Every time you can save us time – do it
- Be personal
- Write in plain English – we don’t understand all banking or legal jargon
- Don’t always assume we speak to legal advisers or accountants
- Be succinct, straightforward and clear, tell me the things I need to know; amount, dates, interest rates, repayments and fees for example

As a result, NAB announced on 6 October 2017 a completely re-designed standard Business Letter of Offer. This included short, simple sentences in plain English without complexity and benefitted over 130,000 small business customers.

Changes were effective on 16 October 2017, when NAB wrote to the public in an Open Letter published in “The Australian” newspaper.

Overhauling these contracts ahead of the original December 2017 commitment was a key priority for NAB

The changes were endorsed by key industry groups (such as COSBOA), the Small Business Minister the Hon Michael McCormack and ASBFEO’s Kate Carnell in the form of press releases and praise on social media channels (primarily through Twitter) throughout the day on Friday 6th October.

In addition, the Commonwealth Bank of Australia (CBA) provided an illustration of practical measures it is undertaking based on feedback from customers in Case Study C.

Case Study C: Focusing on the customer experience

In recent months, Retail Banking Services has continued to focus on improving products and services for customers. These changes have been designed to provide a better experience and give customers greater convenience and control.

In September 2017, we were the first Australian bank to remove ATM withdrawal fees so all Commonwealth Bank and non-Commonwealth Bank customers won't be charged a fee when they take cash out at any of our 3,400 ATMs.

The removal of this fee was made following feedback from customers and consumer groups about the need to make changes that benefit all Australians. In the first three days after the ATM withdrawal fee was removed, use of Commonwealth Bank ATMs by customers of other banks increased by 34 per cent, highlighting the demand for this change.

In another step to increase our focus on customer service, further changes were announced in October to the way the retail bank's frontline branch staff are remunerated. The new measures saw approximately 2,000 customer service representatives, also known as tellers, move to a new remuneration plan focused on each individual's contribution to providing superior customer service and abolishing links to financial measures. The changes were backdated to 1 July 2017, the start of the current Commonwealth Bank performance period.

In addition, close to 200 Bankwest branch tellers moved onto a similar customer-focused remuneration structure from the start of their performance period 1 October 2017.

Retail Banking Services' ongoing investment in innovative solutions for customers also saw three new initiatives announced in October. These solutions are designed to give customers more visibility and control of their personal finances, including a new credit card with a purchase interest rate of 9.90 per cent; new real-time alerts for credit card repayments, overdrawn accounts and high cost credit card transactions (progressively available from November); and access to an instalment feature designed to help customers pay down existing balances or large purchases, in easy fixed instalments (available mid-2018).

These latest initiatives follow on from a suite of online tools and features launched over the last three years to give customers more visibility and control over their credit card spending.

Suncorp Group Limited (Suncorp) also drew attention to opportunities it is taking to apply the commitments in the Banking Reform Program across its entire business, and complement the reforms with additional initiatives to reinforce positive customer outcomes. The following illustrations were provided by Suncorp:

- In November 2017, Suncorp's Customer Advocate hosted a Consumer Advocacy Day, which was attended by Customer Advocates from 12 organisations, along with representatives from FOS, the Insurance Council of Australia (ICA) and senior Suncorp staff, including Suncorp's Chief Executive Officer - Banking and Wealth, David Carter. The event was focused on ways Suncorp can better serve customers who may be experiencing vulnerability. By gaining actionable insights on helping vulnerable customers, Suncorp will be able to deliver more personalised and meaningful support within quicker timeframes, helping customers in a key moment of need. This is an important part of Suncorp's vision to be there for its customers in the moments that matter; and

- As part of Suncorp's broader efforts to strengthen the commitment to its customers, Suncorp's banking business is currently implementing changes to its Insufficient Funds process. Suncorp introduced intraday processing for payment files in August 2017, meaning payments to customers' accounts are made more quickly and the risk of an account having insufficient funds to make a payment is reduced. Suncorp has also implemented a reduction in Payment Honour and Dishonour Fees on certain accounts with effect from 13 December 2017. Suncorp advised that it has already noticed a significant reduction in the number of complaints on this issue following the implementation of these changes.

The initiatives implemented by the participating banks represent substantive changes to strengthen banks' commitment to their customers. It also reflects a significant undertaking by banks to institute the new arrangements but also, where required, to move existing customers to the new arrangements.

As indicated in Report 4, not all participating banks are signatories to the Code of Banking Practice.²⁷ Those that are not have advised they will keep the position under review. In this context Bank Australia has advised that a review of the Code has commenced and a recommendation on whether the bank will become a signatory to the Code will be presented to the Board at its meeting in February 2018.

In addition, many of the banks have reported that they are using indicators such as disaggregated Net Promoter Scores (NPS) to better understand how these changes are impacting customers. Some banks have developed more bespoke measures to supplement their NPS indicators. ANZ Bank has provided an example of how it is using its NPS indicators to listen and learn from customers, then take action to improve their experience with ANZ Bank, outlined in Case Study D below.

Case Study D: Embedding NPS

In October, ANZ commenced scaled deployment of the Net Promoter System (NPS) as a method of seeking customer feedback and driving reform. NPS asks simple questions of our customers after they interact with ANZ which help us measure customer experience and drive improvements across our business.

Through 2017 we have put the foundations in place for NPS. A Customer Council was set up to begin implementing NPS, measuring and aligning performance objectives to customer experience outcomes and behaviours. An NPS Centre of Excellence is leading the task of building and embedding the NPS across our Australian bank.

There are two key ways that ANZ responds to NPS customer feedback, which we call 'learning loops'. The 'inner loop' gets customer feedback straight to our staff, allowing them to address customer issues within their control. The 'outer loop' facilitates identifying bigger issues where solutions across business units and divisions may be required to improve experiences for all of our customers. The first pilot of the outer loop, conducted earlier in the year, was for retail credit card applications. Marked improvements in NPS were achieved through actions to directly address customer concerns.

NPS has now been deployed across contact centre teams handling two million calls per annum and covering customer 'on-boarding' for retail credit cards, retail transaction accounts and business transaction accounts.

Beyond the formal measures being taken, the review has also been informed of regular meetings with community leaders and consumer groups to obtain more insights about bank customers and to identify how customers can be better assisted over and above the existing industry reform program.

²⁷ Participating banks that are not signatories to the Code are: Bank Australia, Macquarie Bank, ME Bank, MyState and Qudos.

Initiative 6: Supporting ASIC as a strong regulator

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

As noted in Report 6, following publication of the cost recovery framework by ASIC on 14 July 2017, banks are working through estimates of the cost increases under ASIC's revised levy calculation methodology.

In relation to breach reporting, the participating banks are awaiting the release of recommendation by Treasury's ASIC Enforcement Review Taskforce and any subsequent Government response. The Taskforce recommendations were due to Government in December 2017. There are no further actions for the participating banks until the release of these regulations.

Overall progress

The implementation status of each bank against each of the milestones to which they committed is presented in Figure 4.

Figure 4: Bank implementation status

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

Key: ✓ Implementation complete ⌚ Progressing implementation - Not progressing implementation²⁸

²⁸ Citigroup has advised it is not progressing the Conduct Background Check Protocol. Refer to Footnote 10 in Chapter 2.

With the exception of the identification, development and publication of overarching principles on remuneration and incentives, it is encouraging to see that the participating banks have largely achieved the milestones set out in the implementation plan (as amended). This has not been without considerable effort by the banks.

The extent of the reform program at the individual bank level has required sound approaches to governance to keep the reform program on track. While mention has been made of the resource demands of the reform program by some of the smaller banks, advice from all banks to this review have been positive as to the progress being made. The Chief Executive Officers of all banks consulted during the course of this review have been supportive and committed to achieving better outcomes for customers, where their policies and practices needed upgrading. It was also evident from these consultations that bank boards were being kept informed of progress, and providing support to the reform program.

3.3 Concluding remarks

Overall the participating banks have made positive steps to complete implementation of the various measures of the package of industry initiatives, with an increasing focus being the development of responses to the Sedgwick Review recommendations and early efforts to change policies and practices in order to align to the revised Code of Banking Practice. It is also encouraging to see collaboration across the industry through measures such as the Customer Advocate Forum, to share best practice and key learnings which are aimed at delivering on the banks' service promise to their customers.

While it is disappointing that all participating banks have not published their overarching principles on remuneration and incentives in line with the implementation plan, completion of this measure by the remaining six participating banks is expected by April 2018. Aside from implementation of the Sedgwick Review recommendations by the performance cycle commencing in 2020, and changing policies and practices to align with the revised Code of Banking Practice, this is the only measure outstanding for individual banks to complete at this time.

To implement the new initiatives effectively at the level of each bank, it is clear that effective governance arrangements are required. Further it is apparent that there are to be benefits gained, as explained by the Chief Executive Officer of Westpac "by not approaching these initiatives in isolation. We are delivering these initiatives holistically as part of a broader transformation agenda and cultural change across (the bank)". It has been encouraging to see this broader view of the initiatives being taken rather than a narrow view.



With the establishment of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the industry has indicated that it remains resolved to continue embedding and continuously improving the reforms initiated through the package of industry initiatives. This commitment to building customers' trust and confidence can only be good for customers, and positive for the industry in the long run.

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Appendix A

Implementation plan as at 18 January 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 Complete	Mar-17 Complete	Mar-17 Complete	Independent review report on remuneration (*Timing contingent on ASIC review on mortgage broking)	a) Establishment of independent review b) Assessment of information gathered and submissions received c) Preparation of draft report and engagement with stakeholders d) Publication of final report	ABA Reviewer Reviewer Reviewer
		1.2 Each bank commits to ensure it has overarching principles on remuneration and incentives to support good customer outcomes and sound banking practices	Apr -17 Complete	Aug-17 Complete	Dec-17 	Individual bank policies on remuneration and incentives; informed by the independent review (*Changes and communication of changes and how they support good customer outcomes and sound banking practices may require additional time due to potential impact on agreements/ contracts and alignment with performance reviews and other workplace-related matters)	a) Analysis of existing remuneration structures and practices and creation of initial framework b) Identification and development of overarching principles by each bank	Banks Banks
		1.3 Work with regulators to implement changes and, where necessary, seek regulatory approval and legislative reform	Apr-17 Complete	Jun-17 Complete	2020 ⁽²⁾ 	Potential regulatory approvals (eg authorisation, legislative reform) (*Timing contingent on preparation of report by independent reviewer and any regulatory approval processes required as well as legal requirements to be satisfied. Any necessary changes will need to be made across various agreements/ contracts and that may require further time)	a) Identification of responses and actions needed to remove or change product sales commissions and product based payments which could lead to poor customer outcomes b) Preparation of any documentation necessary to make any changes (such as submissions or applications for regulatory approvals) c) Regulatory approvals (where necessary) provided for banks to be able to make changes d) Banks change remuneration structures (where necessary) and communication of how and why these changes have been made	ABA/Industry ABA/Industry Regulators Banks

Legend:



R1 R2 R3 R4 R5 R6 R7

Reported status

Status key:

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

Implementation plan as at 18 January 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	2.1 Enhance the existing complaints handling processes by establishing a dedicated customer advocate in each bank to ensure retail and small business customers have a voice; and customer complaints directly relating to the bank, and the third parties appointed by the bank, are appropriately escalated and responded to within specified timeframes	Jul16 Complete	Dec-16 Complete	Jun-17 Complete	Industry position on the role of a customer advocate Appointment of a customer advocate in each bank	a) Assessment of customer advocate function and creation of initial framework b) Preparation of draft guiding principles to assist each bank meet the commitment c) Consultation and stakeholder engagement d) Finalisation of guiding principles e) Implementation of customer advocate function in each bank	ABA/Industry ABA/Industry ABA/Industry ABA/Industry Banks
		2.2 Support a broadening of external dispute resolution (EDR) schemes. Support the Government's announcement to conduct a review into EDR, including the Financial Ombudsman Service (FOS) conducting a review of its terms of reference with a view to increasing eligibility thresholds for retail and small business customers	Sep-16 Complete	Dec-16 Complete	Jun-17 	Industry position on operation of preferred EDR system completed for contribution to government review (*Timing of review to be determined by the government; potential impact on Code review)	a) Preparation of industry position on EDR b) Participation in government review of EDR c) Announcement by government (or relevant regulator) of findings of review and recommendations d) Adoption of industry position in new EDR system	ABA/Industry ABA/Industry Government ABA/Industry
	2.3 Work with ASIC to expand its current review of customer remediation programs from personal advice to all financial advice and products	Jul-16 Complete	Jul-16 Complete	Sep-16 Complete	ASIC regulatory guidance on client remediation programs issued (*Timing of regulatory guidance to be determined by ASIC)	a) Revised submission to ASIC on consultation paper on client remediation b) Adoption of industry position in new regulatory guidance c) Implementation of any changes to ensure banks' systems and practices support client remediation programs, including better record keeping	ABA Regulators Banks	
	2.4 Evaluate establishment of an industry wide, mandatory last resort compensation scheme covering financial advisers. Support a prospective scheme being introduced where consumers of financial products who receive a FOS determination in their favour would have access to capped compensation where an adviser's professional indemnity insurance is insufficient to meet claims	Sep-16 Complete	Mar-17 Complete	Sep-17 	Industry position and model for last resort compensation scheme settled	a) Identification of possible model for a last resort compensation scheme b) Preparation of industry position on a last resort compensation scheme c) Coordination of engagement and consensus building across stakeholders d) Consensus support for implementation of scheme e) Preparation of consensus submission to the Government f) Possible introduction of legislation to implement a scheme	ABA/Industry ABA/Industry ABA/Industry ABA ABA Government	

Legend:



R1 R2 R3 R4 R5 R6 R7

Reported status

Status key:


> Cn target


> Cn alert for slippage against plan





> Adjustment required to original plan

> Next phase reliant on government


Implementation plan as at 18 January 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	Promote highest standards of whistle blower protections and ensure robust and trusted framework for whistleblowing	3.1 Ensure the highest standards of whistleblower protections by ensuring there is a robust and trusted framework for escalating concerns. Standardise the protection of whistle-blowers across banks, including independent support and protection against financial disadvantage.	Jul-16 Complete	Dec-16 Complete	Jun-17 Complete	Industry position on whistleblower protections Implementation of whistleblower framework aligned with industry principles in each bank	a) Assessment of whistleblowing policies and practices and creation of initial framework b) Preparation of draft guiding principles to assist each bank meet the commitment c) Consultation and stakeholder engagement d) Publication of guiding principles e) Bank implementation of highest standard of whistleblowing policies	ABA/Industry ABA/Industry ABA/Industry ABA Banks
4 Removing individuals from the industry for poor conduct	Demonstrate banks' commitment to improve practice and implement an industry register or mechanism to identify poor conduct across all bank employees, including customer facing and non-customer facing roles, and promote good conduct and ethical behaviour.	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 Complete	Jun-17 Complete	Dec-17 	Completion of position paper on an industry register Implementation of Conduct Background Check Protocol Industry register established>(*Contingent on introduction of supporting statutory underpinning by Government)	a) Identification of possible model for industry register b) Preparation of industry position c) Coordination of engagement and consensus building across stakeholders d) Implementation of Conduct Background Check Protocol (from 1 July 2017 (major banks) and 1 October 2017 (non-major banks)) e) Demonstrate industry engagement with Federal Government in support of a statutory register (end Dec 2017) f) Implement statutory register if introduced by Government	ABA/Industry ABA/Industry ABA/Industry ABA/Industry ABA/Industry
5 Strengthening our commitment to customers in the Code of Banking Practice	Ensure the Code of Banking Practice adequately covers expected standards for banks and their relationship with customers, including standards for engagement between both parties	5.1 Complete a review of the Code of Banking Practice by the end of the year.	Jul-16 Complete	Dec-16 Complete	Dec-16 Complete	Independent review report on the Code of Banking Practice	a) Establishment of independent review b) Assessment of information gathered and submissions received c) Preparation of draft report and engagement with stakeholders d) Publication of final report	ABA Reviewer Reviewer Reviewer
		5.2 Work with banks to implement changes to improve the operation of the Code of Banking Practice within their individual organisations	Jun-17 Complete	Dec-17 Complete	TBC	New Code of Banking Practice (*Contingent on EDR review by government; transitional period and subsequent implementation of changes dependent on the extent of the changes)	a) Identification of responses and actions needed to improve the operation and performance of the Code b) Preparation of any changes to the Code and associated materials c) Publication of the new Code d) Banks make changes to reflect the standards contained in the new Code	ABA/Industry ABA/Industry ABA Banks

Legend:

 R1 R2 R3 R4 R5 R6 R7
 Reported status

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

Implementation plan as at 18 January 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 b) Consideration of industry position in new model c) Implementation of an industry funding model which is accountable, transparent and encourages better and more efficient regulatory activities	ABA/Industry ABA/Industry Government
		Complete	Complete	Complete				
		6.2 Work with ASIC to enhance the current breach reporting framework	Aug-16	Oct-16	Dec-16	Industry position on breach reporting regime completed for contribution to ASIC consultation (*Timing of review to be determined by government)	a) Preparation of industry position on breach reporting regime b) Participation in Government/ASIC review of breach reporting c) Adoption of industry position in revised regulatory guidance d) Banks implementation of changes to systems and practices to support new breach reporting system	ABA/Industry ABA/Industry Government Banks
		Complete	Complete					

Legend:



R1 R2 R3 R4 R5 R6 R7
Reported status

Status key:

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

Footnotes:

1. Assessment based on advice from the ABA and/or entity/entities with primary responsibility for implementation.
2. Initially this measure was due to be completed by December 2017. Consistent with the Sedgwick Review recommendations, the ABA's timetable now provides for the revised remuneration arrangements to be in place for retail banking operations by the performance cycle commencing in 2020.

Appendix B

Participant banks

The following member banks of the ABA²⁹ have confirmed their participation in the package of initiatives:

- AMP Bank³⁰
- 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

²⁹ Defence Bank was a participating bank until 30 June 2017 however has since withdrawn from membership of the ABA

³⁰ AMP Bank has advised its commitment to the package of initiatives is subject to relevance to the bank and alignment with AMP Group.

Appendix C

Stakeholder consultations undertaken

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

Banks:

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

Other stakeholders:

- Australian Bankers' Association
- Australian Securities and Investments Commission
- Australian Small Business and Family Enterprise Ombudsman
- Finance Sector Union
- Financial Counselling Australia

Appendix D

Summary of public inquiries

Responsible party	Review title	Consultation close	Findings due	Initiatives potentially impacted					
				1	2	3	4	5	6
Governor-General on the advice of the Government	Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry		Feb 2019	x	x	x	x	x	x
House of Representatives Standing Committee on Economics	Review of the Four Major Banks ('Coleman Inquiry')	Feb/Mar 2017	Ongoing	x	x	x	x	x	x
Parliamentary Joint Committee on Corporations and Financial Services	Whistleblower protections in the corporate, public and not-for-profit sectors	Feb 2017	Completed			x			
Senate Economic References Committee	Consumer protection in the banking, insurance and financial sector	Mar 2017	May 2018		x			x	
Senate Select Committee on Lending to Primary Production Customers	Regulation and practices of financial institutions in relation to primary production industries	May 2017	Completed		x				
ASBFEO	Small Business Loans Inquiry ('Carnell Inquiry')	Dec 2016	Completed		x			x	
ASIC	Review of mortgage brokers remuneration structures	Dec 2016	Completed	x					
Treasury	Review of the financial system external dispute resolution framework ('Ramsay Review')	Oct 2016	Completed		x			x	
Treasury	ASIC Enforcement Review	Ongoing	Dec 2017					x	x
Treasury	ASIC Industry Funding Model	Jun 2017	Completed						x
Treasury	Tax and corporate whistleblowing	Feb 2017	Ongoing			x			
Treasury	Product design and distribution obligation and product intervention power	Mar 2017	Ongoing						x

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

Appendix E

Glossary and abbreviations

Term	Definition
ABA	Australian Bankers' Association
AFCA	Australian Financial Complaints Authority
APRA	Australian Prudential Regulation Authority
ASBFEO	Australian Small Business and Family Enterprise Ombudsman
ASIC	Australian Securities and Investments Commission
Banking industry	Banks and banking industry associations
Banking system	Regulators, industry bodies, banks, laws and regulations
CALC	Consumer Action Law Centre
Carnell Inquiry	Small Business Loans Inquiry being undertaken by the ASBFEO, Ms Kate Carnell AO, into the laws and practices governing financial lending to small business
CIF	Combined Industry Forum
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

