

Conduct Risk Culture & Regulation in Financial Services

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Thank you very much for that introduction.

Let me start this morning with a simple, but very important point.

Banks in Australia want to be trusted and they want to be respected.

When I say banks, I actually mean the people who work in banks.

I mean the type of people who catch the train or bus each day to go to work in a branch, a call centre, the IT department, document processing, or marketing.

These are the people who, each in their own way, are contributing to the very thing banks do for our society. They are helping people grow their lives, by helping them buy their first car or their first home, upsizing when the family comes along, and planning for a secure retirement. They are the people who help businesses get started and grow, creating more and better jobs.

They go to work for various reasons, but most of them will want to feel they are doing something useful, something they can be proud of, and that they are helping people, whether directly or indirectly.

When asked at a barbeque or a party what they do, they would like to be proud to say "I work for a bank".

And when I talk about banks, I also mean the people who lead the banks; the senior executives, the CEOs, the Boards. They want to be leaders of an industry whose contribution to society is understood, acknowledged and appreciated and whose institutions, the banks, stand as pillars of trust, integrity and respect.

I think it is fair to say that neither the bank employees on the train or bus on their way to work, nor the executives in their corner offices looking out across the city feel the banking industry is where they want it to be.

For that matter, nor does the general community.

I think Australians yearn to trust and respect their banks, but unfortunately are more likely to feel that there has been a long history of being let down.

So why is the banking industry where it is today?

And more importantly, if we are not where we need to be, what are we doing about it?

Earlier this year, the industry made major commitments to fix many of the problems that people have raised concerns about. One example is looking at whether the way we pay bank staff could encourage staff to put their interests and the bank's ahead of what is best for the customer.

We are also working on another big issue for many people – that they feel they can't take on the might of the bank when something goes wrong.

But before I go into the detail about these reforms, let's have a look at where we are today and why these types of reforms are so important.



Strong banks – strong Australia

There are a number of ways to understand where the banking industry sits today.

One way is to look at how much of an issue our banks are for the community.

If you pick up a newspaper, listen to the radio news or browse news websites, you would easily be convinced that the banking industry is a major issue for the community.

For months now, there have been regular reports that many in politics, the media and the community are calling for a royal commission into the banks and the wider financial services sector. A day barely goes past without some politician standing in front of the TV cameras and radio mics, reminding people that they are demanding nothing less than a royal commission.

You would be forgiven, then, for thinking that concern about the banks is a major issue for the community, and that action on the banks would be one of the community's top priorities for government.

Actually, this is not the case.

Like many industry associations, the Bankers' Association conducts its own polling on a regular basis. We ask people about the issues that are of most importance to them and their families and what they want to see the government focussing on.

When we ask this question, banks barely rate a mention.

What Australians actually want the government to deal with are people's concerns about the health system and its costs, the performance of the economy, the education system, and employment, or put more simply, jobs and job security.

When people turn their televisions on in the evening to watch the news, or check their Facebook news feeds, these are the issues they want to see their politicians debating and showing leadership on, not banks or other issues that are seen as distractions from the main game.

The issues people want addressed are actually issues where banks can, and do, help.

But this doesn't mean banks don't need to worry or that the community's feeling towards us is neutral. Far from it. It is very easy to garner support for action against the banks, even if it is not seen as a first, second or even third order priority.

When people are asked directly about banks, 'trust' and 'respect' are not the words that dominate their answers.

And when they are asked directly if they support a royal commission into the banks, 2 in every 3 Australians say 'yes'.

So let's drill down into this.

Let me start with the royal commission before exploring more fully how the community perceives banks and why.

I believe there are three major factors behind why we keep hearing about a possible royal commission and why it has popular support.

The **first** is undoubtedly the industry and its performance, and in particular, the stories and examples of where the industry has not met its own, let alone the community's, expectations.

I will come back to this in a moment.

The **second** factor is the growing reaction against the 'established order'. That sounds dramatic, and it is.

The same force that is behind Brexit and the rise of populist figures in Europe and the US is at work in Australia.

At its core is a growing mood of frustration and anger in many parts of the community that the current system, the 'established order', is failing to deliver. This reaction is directed at the long established



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political parties, at corporations and their leaders, and at many other institutions of long standing, all of which are seen to benefit from the established order, while increasing numbers of people feel, often with justification, that no matter how hard they try, they are going backwards.

Banks in Australia are prime targets for this growing community frustration, because many in the community already see us as more concerned with our own profits than with good customer outcomes.

The **third** factor driving attention towards the banks and the call for a royal commission is politics and, in particular, the current fragility in Federal politics. I won't dwell on this, but calls for a royal commission are particularly potent when one side of politics sees political mileage in characterising the other side as out of touch with the community concerns, just like the banks.

But while the current state of politics exacerbates attention on the banks, we would be very wrong if we dismissed the issue as just a political one. At the end of the day, it is the community's view of banks that determines how the banks are viewed politically.

So let me now turn to how people in the community view banks.

To start with, it is worth noting that people typically hold three different views about banks.

First, they think about their own bank from their perspective as one of the bank's customers.

By and large, people are happy with their relationship with their own bank. For most customers, their banking works how they want it to work. A major focus on customer experience and satisfaction, coupled with increased convenience delivered by technology and lower costs of banking, keep customer satisfaction levels high.

But people also think about banks as a collection of institutions, 'the banks'.

Here, their views are much more negative.

People's views of banks collectively are driven by the negative stories in the media, and the experience of others in their networks of friends and family. When thinking about banks as a group, people focus on their perceptions of costs, particularly bank fees, which are seen as too high, too unpredictable and too disconnected from any sense of value people get from paying them.

They focus on a perceived lack of transparency and accountability around the industry.

They focus on the big profits banks make and perceptions that banks don't pay taxes.

It doesn't matter that some of these perceptions are arguably flawed. The major banks are actually the biggest corporate tax payers. Banking is the only industry I know of that provides its core product, a bank account, free of charge – without fees for day to day banking. And the fees that are paid by households have actually fallen significantly over the last few years.

What matters though is how banks are perceived. Perception, as they say, is reality.

So if we are to rebuild trust and respect for the industry, we need to understand what underlies community perceptions of banks as a group of institutions.

At its core, the community sees banks as occupying a privileged position in society.

There are three main drivers for why we are seen as privileged.

First, banking is a 'grudge purchase'. If people want to get paid, or borrow money or put their savings somewhere safe, they have to deal with a bank. They may choose a credit union or a building society,



but basically, if they want to live in the modern world, they have no choice but to deal with a bank of some sort.

Second, people now know that, if those highly paid executives who run the banks stuff it up, ordinary people are the ones who have to bail them out. Australians know this didn't happen in Australia during the financial crisis, but they also know that it did happen overseas and that somehow or other, the taxpayer can be on the hook if the banks make big mistakes.

Third, banks are seen as privileged because of what we would call 'information asymmetry'. Whether it is understanding where the world and Australian economies are going, and being able to position yourself accordingly, or whether it is understanding the terms and conditions of the credit card they are thinking of signing up for, people are very conscious that it is the bank that has all the information, not the customer.

This is why the community sees banks as privileged.

Importantly, they do not want to take that privileged position away. People understand that it is important to have strong banks occupying this position in society. But they do expect something in return.

Because banks are seen as privileged, people expect them to have greater responsibilities to society than other corporations.

Often people aren't really clear what these social obligations are. They don't have a clear set of duties and responsibilities in mind. But if they are asked to describe them, they basically say, "*banks should do the right thing by their customers*".

While they are not clear on the specifics of these social obligations, they are fairly clear about one thing, and that is, that banks are failing to meet them. In fact, they would go further. Rather than meeting their obligations to customers, banks are seen as exploiting their privileged positions to enrich themselves. Proof of this for the community is seen in the profits banks make and the executive salaries they pay.

These are my views on how the banking industry is seen and why. If I had to sum them up in a few words, I would say the critical issue is an imbalance of power. The banks are seen as powerful and uncaring. Customers see themselves and other customers as vulnerable and disempowered.

This then is the issue the industry has to tackle – this sense of a power imbalance – because if it doesn't, others will.

There is also good news for my industry.

I mentioned that people can each hold three views of banks: their view of their own bank and their relationship with it as a customer; their view of banks collectively; and then a third view.

This is people's views of banking as a system, something that works in and through their own lives and the broader economy.

Here people see banking as an enabler – something that allows them to 'tap and go' in making small purchases, that helps them make bigger purchases, like buying a car or house, or paying for a holiday. Something that keeps their savings safe. And something that helps people set up and grow a business and create jobs.

People have positive views about banking as an enabler, but these views lie buried behind their negative views of banks as a collection of privileged institutions.

So does any of this matter? Haven't people always been down on the banks? And aren't we reminded by the politicians and media all the time that we have one of the most profitable banking industries in the world. Why should banks care if all they are interested in is making money? They seem to be doing a fine job of that.



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Of course, as I set out at the start, banks, and the people who work for them, are not interested in only making money.

They want to work in a trusted and respected industry.

And there are serious risks for an industry, even if it is doing well now, in not addressing the community's concerns.

Let me touch on those briefly before looking at the all-important question of what the banks are doing about all of this.

When an industry is out of step with the community, it faces a number of risks.

It faces *political risk*, the danger of political pressure being brought to bear on the industry. This can create distractions for the industry, drawing its attention away from finding better ways to serve its customers and the economy. It also creates uncertainty for the industry, which can be damaging to confidence.

Political risk can lead to *regulatory risk*, through new rules and requirements, and more intense and changing demands from regulators. This adds costs, inefficiencies and disruption to the industry, and to how it serves its customers and the economy.

There is *competitive risk* – if banks are not trusted and respected, this just makes it easier for new players to win customers away from the banks.

There is *talent risk* – will our best and brightest want to work in banking and will they demand more to stay?

The answer to all these risks – and to building trust and respect in our banks – is the same.

When we are seen to do the right thing by the customer, all these risks will go away, or will at least be greatly diminished.

But we have to be responsible about how we do this. We have obligations to others as well, including our investors, many of whom are ordinary Australians, and the superannuation funds that help Australians enjoy their retirements. We have responsibilities for making sure the banking system is strong and resilient and people's money is safe, in any circumstances.

The industry's challenge is to make sure we balance all these things well. But my focus today is on meeting the expectations of customers and the community.

So this brings me to the second part of my speech. I've outlined where we are and why it is a problem.

What then is the solution?

Let me start by spelling out briefly why a royal commission is not the solution. I will be brief because I am conscious that you would expect me to oppose a royal commission, but perhaps not for the reasons I will give.

First, let me be very clear. The banking industry is not saying a royal commission is wrong because we are denying there is a problem. Clearly, there is a problem.

We have all seen the stories about the impact poor advice, poor conduct and poor behaviour by people in, or associated with, banks have caused others in the community. Whistleblowers like Jeff Morris have called out some of these cases. Others have been revealed through the hard work of journalists like Adele Ferguson. Some have come to light because of action by the regulators, such as ASIC. And many have been identified and reported by the banks themselves, together with how they are going to make amends to customers.



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Sometimes only one side of the story is reported, and the truth can be more complicated. While that is frustrating for the industry, it should not detract from the need for us to learn from all examples where the industry, quite frankly, has failed to live up to its own standards, let alone those of the community. And we must look for any underlying causes for these failures, not just dismiss them as aberrant behaviour by rogues.

Clearly there are issues in the industry, but a costly, long winded and legalistic royal commission that produces only another report, even a weighty one, is not the answer.

Those arguing for a royal commission have also repeatedly failed to explain what a royal commission would actually achieve. All sorts of justifications have been given for a royal commission, including – banks not following the Reserve Bank when it changes the cash rate – the level of bank profits – credit card interest rates – and the level of executive salaries – but those arguing for a royal commission have dodged the question when asked whether that means they would actually regulate bank profits, interest rates and salaries. If the answer is 'yes', then that is a radical change in the way successive governments have approached banking, even free market, policy. If the answer is 'no', then what is the purpose of the royal commission?

A royal commission is also risky, even reckless. Confidence in our banking system is vital, particularly at times of stress in international markets. Given the ongoing fragility in international markets and major economies, we do not want to be sending signals that our banking system is anything other than the strong, well-regulated and well managed system that it is.

So if a royal commission is not the answer, what is?

The answer is simple.

We know the issues and we need to take action now.

And action is being taken, by government and by the banks.

Since the time when much of the poor advice, poor conduct and poor behaviour occurred, we have seen major regulatory improvements in the industry, such as the previous Government's Future of Financial Advice reforms, which the Bankers' Association has consistently supported.

We expect the next stage of financial advice reform, focused on lifting the education, competency and professional standards requirements for financial advice, to be legislated soon by the current Government.

We have seen the biggest inquiry into the financial system in decades, the Murray Inquiry, which has made carefully considered recommendations, including to enhance the powers of the regulator, ASIC.

The banks accept these recommendations.

We have seen ASIC's funding enhanced to keep the industry under closer scrutiny.

We have the Small Business Ombudsman reviewing small business cases to ensure appropriate treatment of these businesses by banks.

The Government is reviewing external dispute resolution processes, and banks support better processes and better access for customers.

Government action is important. But so is industry action, particularly industry action that goes directly to the concerns customers have. So I will finish up by describing what action the banks are taking and what this means for customers.



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I mentioned earlier about bank employee pay.

When customers walk into a branch, or call the bank, they want to know that the person they speak to really wants to do the right thing by them, the customer, and is not just focused on earning a bigger bonus. The banks have therefore asked an independent former senior public servant to look at how we pay staff, and others who act on behalf of the bank, and to tell us what changes are needed. He's being helped by a consumer group, a professional standards body and the union to make sure this leads to genuine change. The banks have promised to remove or change any payment that could lead to poor customer outcomes.

Another big issue for many people is that they feel they can't take on the might of the bank when something goes wrong. Sometimes they try, but give up in frustration. Sometimes they don't think it's even worth trying.

Frustrated customers are not good for us either, so we want to give customers a stronger voice to get their problems fixed. The banks have promised to each set up a customer advocate, whose job it will be to make sure that customer complaints are dealt with quickly. They will also have the power to go straight to the top, to the CEO, if they think the bank is standing on the hose and taking too long, or being too difficult, about a customer's problems. This applies to individual and small business customers.

But we know that's not enough. Banks don't always fix the problem or satisfy the customer. The customer needs to be able to take their problem to someone else, someone independent of the bank. We have the Financial Ombudsman for that, but some people have said that the rules about who can go to the Ombudsman are too narrow. As I mentioned, the Government is reviewing those rules, and looking at how customers' complaints can be better managed. We support that review and we want to see the rules changed, so more customers, if they have a problem, can get their concerns looked at by the Ombudsman.

Sometimes though, it doesn't help the customer to even get the Financial Ombudsman to find in their favour. There have been times when the Ombudsman has found that a customer was given poor financial advice, but the customer can't get their money back because the financial adviser has disappeared or gone broke and didn't have enough insurance to cover customers' losses. These are not bank customers – if we give poor advice, we are always around to be held to account and to compensate the customer. This is where the adviser or their firm is no longer around to take responsibility. To fix this, we want to see a mandatory last resort compensation scheme put in place, funded by all financial advisers, including banks, so that in future, if a customer is left out of pocket because of bad advice, they can at least get some compensation. We think this is important to help restore the public's trust in financial advisers.

This is about helping customers when things go wrong, but of course, it is even better to make changes to stop things going wrong in the first place. We have to learn from past mistakes.

Two of those lessons we've learnt have been about the importance of encouraging people working in banks to call out behaviour that harms customers as soon as they see it, and making sure that when people break the law or don't behave appropriately, this is known to future employers.

Some of the recent examples of poor behaviour have really only come to light when people have had the courage to stand up and expose the conduct. Doing that can be tough on those people, the whistleblowers. Some have seen their careers in banking ended.

Banks can sometimes see these whistleblowers as troublemakers who need to be managed or silenced. Instead, we need people to have confidence that they can stand up and call out poor behaviour. When bank staff have confidence that they can call out legitimate problems, they can save the bank and customers a lot of pain later. That's why the banks have promised to have the highest standards of whistleblower protections, with independent support available, and have made a commitment to protect whistleblowers from financial disadvantage. This promise needs to drive a mind shift within banks that people who raise legitimate concerns are heroes, not troublemakers.



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Another problem we've seen is that, sometimes, someone can be sacked from a bank because they have broken the law or breached a bank's code of conduct, only to turn up working at another bank. This is not good enough. While everyone deserves a fair hearing, if people aren't prepared to obey the law or respect the conduct we expect and set out in our codes, they don't deserve to work in the industry. Nor should customers be put at risk from these people. We are therefore putting in place a register, covering any bank employee, to prevent the recruitment of people who have breached the law or codes of conduct.

These are just some of the important changes that we are putting in place to give customers more confidence in the banks. They build on earlier changes we've made, including:

- Strengthening our financial hardship programs, which help tens of thousands of Australians get through financial difficulties and back on their feet.
- Improving our efforts to protect vulnerable customers from financial abuse.
- Making sure that those on low incomes can get fee-free banking.
- Helping many more Indigenous Australians access the banking services that many of us take for granted.

We know this is only a start and customers will expect us to keep showing how we are changing to meet their expectations, if they are to change their view of us.

There is no silver bullet that will rebuild trust and confidence in our banks and make banking a respected profession. It requires hard work. It needs the industry to keep listening to its customers, to the community, and acting in response.

This is what the community expects and this is what we need to deliver.

Thank you.