AUSTRALIAN BANKERS' ASSOCIATION INC.

Strong banks – strong Australia

Banking Reform Program

Annual Report – How Australia's banks are making a better banking industry

01 May 2017

AUSTRALIAN BANKERS' ASSOCIATION INC.
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CEO message

Australia has one of the strongest banking systems in the world. Our banks are well capitalised, the system is highly competitive and strongly regulated. Yet financial and prudential strength is only one measure of success. Equally important is a strong social licence to operate, and operate profitably.

In April 2016, the Australian Bankers' Association launched the ***Banking Reform Program***, a package of measures designed to ensure that Australia's banks meet the expectations of their customers and the community.

Banks have an obligation to balance the interests of all the people they deal with – customers, employees, shareholders, regulators and others in the community. Banks also need to make sure they close the gaps between perceived performance, actual performance and expected performance. This is not only because customers expect it; it is in their commercial interests to do so.

The ***Banking Reform Program*** is a fundamental change in the ways banks do their business. The reform program is a clear demonstration that banks are responding to community concerns about how our banks operate day-to-day. It is the first time that Australia's banks have come together in such a substantive way to find common ways to respond to these concerns. The initiatives will transform the culture and conduct of our banks to the benefit of customers.

As the new Chief Executive of the Australian Bankers' Association, I'm impressed by the extent and nature of the work that has been done to implement the reform program over the past 12 months.

Significant progress has been made, including the introduction of dedicated customer advocates, improvements to protections for whistleblowers to encourage a 'speak up' culture and improvements to customer remediation and compensation programs.

Independent reviews have been conducted into how banks reward staff (Sedgwick Review) and into how banks interact with customers (Khoury Review), both which have made significant recommendations to improve banking practices and standards.

There have been complexities in delivering the ***Banking Reform Program***; some of which the industry anticipated when the reform program was announced and some which were not. There are also a number of external factors the industry still needs to take into account, such as the findings of Government reviews.

There is a great deal of work which has been completed and work that continues to be implemented. Of course, there is more to be done. One of my first priorities is to identify where the industry can accelerate reforms to demonstrate how serious it is about change. The industry wants to deliver change fast, but take care to get it right. Our challenge is to focus on implementation of the many recommendations of the independent reviews, along with those from Government reviews, with a sense of urgency and resolve.

I'm pleased to provide this Annual Report about the industry's progress in creating a better banking industry.

Anna Bligh
Chief Executive Officer
Australian Bankers' Association

Strong banks – strong Australia

Introduction

On 21 April 2016, the banking industry announced a comprehensive package of initiatives to protect consumer interests, increase transparency and accountability and build trust and confidence in banks, known as the ***Banking Reform Program***.

Since that announcement, the Australian Bankers' Association (**ABA**) and the banks have been working hard to deliver those commitments. Many of the initiatives have been implemented, while progress on others continues at pace.

This report outlines:

- Our progress against each of the initiatives in the Banking Reform Program
- How the industry has adjusted the program over the year to include additional initiatives targeted at addressing specific issues for individual and small business customers, and
- Additional initiatives incorporated to address new and emerging issues to make a better banking industry.

Why the Banking Reform Program?

Background

Around mid-2015, the banking industry commenced consultations with a wide variety of stakeholders, including regulators, politicians from all sides of politics, and consumer representatives. The banks identified six areas where the industry could make significant changes that would make a real difference for their customers and employees.

The six initiatives were chosen because they addressed the issues of most concern to these stakeholders about the conduct and culture of banks. At their heart, these initiatives are about fixing problems, ensuring banks change their practices so they meet high standards, and building trust in banks.

Original announcement

In announcing the Banking Reform Program on 21 April 2016[1], the leadership of the industry identified a 'trust gap' which we, as an industry, need to fill to make sure banking serves our customers, supports our economy and continues to be delivered in ways expected by our customers and the community.

The vast majority of customers are satisfied with their bank. However, this is not the case with all customers. Not all customers have received the product or service they expected or the treatment they deserved. Not all customers are confident banks are operating in the interests of their customers; it is not so much what banks do or their role in the economy and society, but how they do their business.

This is not unique to Australia's banks, and while our banks were managed well and regulated well through the global financial crisis, the industry needs to continue to evolve to meet the changing needs and expectations of our customers, our employees and the community. Our customers rightly expect the behaviour of banks to meet high ethical standards while looking after their financial needs.

The industry appointed Gina Cass-Gottlieb, from Gilbert + Tobin Lawyers, to lead the work on establishing the governance arrangements around implementation, monitoring and reporting on the initiatives, and the selection of an independent expert to oversee the reform program.

[1] http://www.bankers.asn.au/media/media-releases/media-release-2016/banks-act-to-strengthen-community-trust

Former Auditor-General, Mr Ian McPhee AO PSM, was appointed to oversee the implementation of the initiatives. Mr McPhee was asked to publish quarterly reports on our progress on the initiatives, ensuring the industry is accountable to our promises, transparent about our processes and clear about our outcomes.

It has not gone unnoticed by some commentators that the reform program was announced around the same time that the Prime Minister, Leader of the Opposition and other political leaders focused on the banks and demanded change. Increased public scrutiny galvanised the industry and made sure the leadership of the industry had the resolve to face into the challenges of working together as a group of competitors determined to drive industry-wide changes in banking.

Subsequent announcement

On 29 January 2017, the banking industry launched the “Better Banking” campaign. The campaign included:

- Initiatives contained in the Banking Reform Program, with a number of initiatives fast-tracked with much shorter implementation schedules
- Additional initiatives, developed in response to feedback from our customers about the original initiatives and other things they felt were important for the banks to do, and
- Additional actions already underway in the industry, but with very low levels of customer awareness.

In late-2016, the industry undertook comprehensive customer and stakeholder research, designed to test the original initiatives against consumer expectations. The results told us the Banking Reform Program was a good start to make sure doing business with banks is made easier and our customers can have confidence that, when things go wrong, banks will do the right thing. But, there were some important things missing from the reform program.

Overall, our customers were concerned about things the banks are actually already taking action, such as changes to the payments system to introduce real-time banking, introducing higher education, ethical and professional standards for financial advisers, protections for customers from fraud, and free bank accounts for pensioners and others receiving government assistance payments.

Other concerns were about things the banks need to do better, or more quickly, such as making sure it is easy for people to change accounts or banks. Customers also expected banks to do more for small businesses, farmers and people struggling with multiple debts.

The additional initiatives included in the reform program are:

- Making account switching easier
- Providing better support for small businesses and farmers, and
- Supporting customers experiencing financial difficulties and establishing a new debt repayment service with financial counsellors.

The “Better Banking” campaign is intended to make sure our customers and employees know about the changes in the industry and can see the banks responding to their concerns and needs.

More information about the Banking Reform Program, including Mr McPhee’s quarterly progress reports, are available at www.betterbanking.net.au.

Appendix A provides a list of the participating banks.

Appendix B provides a summary of the progress made by the banks across the various initiatives and actions to make a better banking industry.

Our progress with the initiatives

1. Reviewing product sales commissions and product based payments

Our commitment to you:	*Building on the 'Future of Financial Advice' reforms, we will 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. We intend to strengthen the alignment of remuneration and incentives and customer outcomes. We will work with regulators to implement changes and, where necessary, seek regulatory approval and legislative reform.* *Each bank commits to ensure it has overarching principles on remuneration and incentives to support good customer outcomes and sound banking practices.*

Progress to date

1.1 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

On 12 July 2016, the ABA appointed former Australian Public Service Commissioner, Mr Stephen Sedgwick AO, to conduct an independent review of product sales commissions and product based payments in retail banking (Sedgwick Review). The review examined whether commissions, performance bonuses or other incentives paid to retail bank staff and third parties, such as mortgage brokers, might not be aligned with the interests of our customers.

Retail bank staff include customer-facing employees in branches or call centres as well as their supervisors and managers who may influence the behavior of our customer-facing employees.

The final report was published by Mr Sedgwick on 19 April 2017[2] and included 21 recommendations about what banks should do to improve their payments to retail bank staff and achieve better customer outcomes as well as to improve the governance, performance management and culture in banks.

Mr Sedgwick concluded that, while there are not systemic issues warranting the outright banning of product based payments, some practices need to be changed because they could promote behaviour inconsistent with customer interests.

Banks recognise the way they pay and reward their staff is important to the community. The industry response on the Sedgwick Review was also published on 19 April 2017, with the banks supporting the recommendations in the final report and committing to implement in full and as quickly as possible[3]. This represents a transformational change in the way banks will go about their business, impacting not just remuneration payments to retail bank staff, but management practices and structures up the line.

Mr Sedgwick has recommended that his suggested reforms should be in place by the performance cycle which falls in 2020.

Case Study: Rewarding customer service

Since introducing changes to incentive arrangements in October 2016 to better reward bank tellers who provide great customer service, Westpac has further refined incentives based on insights gained in the first 6 months.

[2] http://retailbankingremreview.com.au/
[3] http://www.bankers.asn.au/media/media-releases/media-release-2017/banks-to-change-the-way-they-pay-their-staff

The key insight from Westpac branches was that there was no significant impact to overall customer activity or the breadth of needs being met for customers as a result of the changes. There were examples of individual behaviour shifts with some bank tellers reducing referrals to other bankers. In those instances, branch managers coached those individuals to ensure that, where customers have a specific need, the teller should refer them to the appropriate banker/specialist who can assist them, and is trained to assist them.

Bank tellers provided feedback about the specific customer measure being used to calculate incentives, which was based on whether the customer would advocate the Westpac brand at a branch level. They made the point that numerous factors beyond their control impacted a customer's view of the brand (e.g. interest rate increases), therefore, this was not as strong a measure of their efforts or contribution in helping customers.

Based on those insights, Westpac refined how their bank tellers are rewarded:

- *The customer measure contributing to teller incentives was changed to be 50% on whether the customer would advocate the branch (providing a close link to the actual support bank tellers provide to customers) and 50% on whether they would advocate the brand (recognising that tellers are still the first touch point for customers and need to continue to be strong brand advocates).*
- *The same incentive arrangements were extended to 3,500 tellers across the Westpac Group's brands, including St George, BankSA and Bank of Melbourne.*

In a separate but aligned move, Westpac announced in February 2017 a commitment to move its personal bankers to a balanced scorecard based 50% on customer measures and 50% on financial performance. This will commence in the 2017-2018 performance year and is consistent with the recommendation made by Mr Sedgwick to transition towards financial measures representing no more than 33% of scorecards by 2020.

These changes demonstrate Westpac's ongoing commitment to eliminate perceptions of conflicts of interest in the way customer-facing staff are rewarded, and aims to build trust and address customer concerns. Westpac continues to monitor the impacts of these changes against customer outcomes, employee feedback, engagement and productivity.

In addition to Westpac, all the major banks have recently made changes to remuneration practices for their retail bank staff and have confirmed their support for further changes as recommended in the Sedgwick report.

From April 1 2017, ANZ introduced a new balanced scorecard incentive plan in its retail banking and contact centre businesses. The plan focuses on customer outcomes, team work and 'well managed' measures, such as compliance (in total 70%) as well as financial performance (30%).

Commonwealth Bank indicated it has been working across a number of areas with a range of initiatives underway to improve customer outcomes, including culture, people management, and incentives. The bank stated that the recommendations will accelerate this work, with many of the recommendations to be implemented by 1 July 2017 and all changes in place by the following financial year.

NAB has made a number of changes to strengthen remuneration and incentive arrangements. NAB moved away from performance-based, fixed pay increases for customer service and support staff. These staff will receive a standard pay rise of 3% per year, under the 2016 NAB Enterprise Agreement. NAB has balanced scorecards for its people where demonstration of values is as important as performance metrics and higher standards for conduct and compliance.

1.2 Develop overarching principles on remuneration and incentives to support good customer outcomes and sound banking practices

The Sedgwick report also includes observations about governance, performance management and culture relevant for all staff, including senior executives. This initiative is broader than retail bank staff.

Each bank will develop and publish overarching principles on remuneration and incentives (or review their existing principles in light of the Sedgwick report) by December 2017.

What banks will do in the future

Banks have supported the recommendations in the Sedgwick report and committed to implement in full and as quickly as possible. This will require the banks to review and change their remuneration practices and performance management systems, policies and procedures, internal controls, and cultures. Workplace agreements, contracts and staff training programs will also be impacted.

Implementation will involve the banks working with employees and stakeholders on making necessary changes. Where the industry needs to collectively work together and with other parts of the financial services industry, such as the mortgage broking sector, the ABA will seek guidance from the Australian Securities and Investments Commission (**ASIC**) and liaise with the Australian Consumer and Competition Commission (**ACCC**) as appropriate to make sure any legal obligations are met, including competition laws.

2. Making it easier for customers when things go wrong

Our commitment to you:	*We will enhance the existing complaints handling processes by establishing an independent customer advocate in each bank to ensure retail and small business customers have a voice and customer complaints directly relating to the bank, and the third parties appointed by the bank, are appropriately escalated and responded to within specified timeframes.* *We support a broadening of external dispute resolution schemes. We support the Government's announcement to conduct a review into external dispute resolution, including the Financial Ombudsman Service conducting a review of its terms of reference with a view to increasing eligibility thresholds for retail and small business customers.* *We will work with ASIC to expand its current review of customer remediation programs from personal advice to all financial advice and products.* *We will evaluate the establishment of an industry wide, mandatory last resort compensation scheme covering financial advisers. We 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.*

Progress to date

2.1 Establish a dedicated customer advocate in the banks

Twenty banks now have a customer advocate in place, including the major banks. The original implementation date was 30 June 2017, however, most banks have been able to appoint the customer advocate in advance of this commitment.

On 30 September 2016, the ABA published new *Guiding Principles – Customer Advocate* to assist the banks introduce a customer advocate to make things easier for their individual and small business customers. The Guiding Principles are available to view here.

The role of the customer advocate is designed to help each bank handle complaints better, improve customer experience and minimise the likelihood of future problems. The customer advocate will be able to ensure each bank better understands where their customers are coming from, and they have the power to escalate issues to the CEO if they think the bank is not resolving issues properly for their customers.

The appointment of customer advocates is an important opportunity to give customers a greater voice when things go wrong and to reach fairer outcomes. Reporting lines for customer advocates depend on the internal structure of each bank, but each customer advocate has an 'executive champion' and has regular access to the CEO, senior executives and/or the Board.

Below is a list of all the customer advocates currently in place in the banks:

Bank	Customer Advocate	Bank	Customer Advocate
AMP Bank	TBA[4]	ING DIRECT	Monique Zimany
ANZ	Jo McKinstray	Macquarie Bank	David Markell
Arab Bank	TBA[4]	ME Bank	Emma Norman
Bank Australia	Fiona Nixon	MyState Bank	Melanie Rottier
Bank of Queensland	Tanya Aaskov	NAB	Catherine Wolthuizen
Bendigo and Adelaide Bank	Leonie Higgs (also Rural Bank)	Qudos Bank	David Nichols
Citi	Ellise Newlan	Rabobank	Owen Ballantine
Commonwealth Bank	Dr Brendan French	Rural Bank	Leonie Higgs (also Bendigo and Adelaide Bank)
Defence Bank	TBA[4]	Suncorp	Debra Tagg
HSBC	TBA[4]	Westpac	Adrian Ahern

A new Customer Advocate Forum has been established where the customer advocates can discuss issues, share best practices and lessons, establish consistent performance measures for the function, where appropriate, and consider industry reporting expectations.

Case Study: Advocating for customers

ANZ was the first bank to introduce a customer advocate for individual and small business customers in 2003, which was expanded to wealth management customers in 2012.

ANZ's customer advocate is supported by a team of seven staff and offers customers who aren't satisfied with the outcome of ANZ's complaints handling process a further review of their complaint. On some occasions, particularly difficult complaints may be referred directly to the customer advocate for resolution.

The customer advocate has evolved and operates autonomously of business units and reports to the Group Executive Australia Division. ANZ is bound by the customer advocate's findings in all cases.

The customer advocate also provides guidance to customer-facing staff on the support of vulnerable customers.

The customer advocate reports high level results in the ANZ Corporate Sustainability Report, including the number of reviews undertaken each year by category and outcomes.

[4] Customer Advocate has been appointed, but not publicly announced at this stage as the function is being further developed.

ANZ has found reporting publicly to be a successful part of its approach to complaints handling and transparency for customers. In 2016, the majority of completed reviews related to disputes about general banking products with a much smaller number relating to insurance, superannuation and investments.

What banks will do in the future

The ABA will continue to engage with stakeholders to understand their views and get feedback about their experiences with customer advocates to inform the banks about how the role/function is contributing to better customer outcomes. The ABA and the banks will review the Guiding Principles to reflect experience with implementation, and in particular to assist implementation by the smaller banks.

Progress to date

2.2 Support the Government's review into external dispute resolution with a view to increasing eligibility thresholds for individual and small business customers

The ABA and the banks believe external dispute resolution (**EDR**) should provide an accessible alternative to resolving a dispute with a bank or other financial institution, without the need to go to court.

With the announcement of the review into EDR system ('Ramsay Review') by the Government, the industry developed and agreed on a set of design principles, which would simplify and expand access to EDR for individual and small business customers.

Banks support a 'one-stop-shop' for customers who have a dispute with a bank or other financial institution. The EDR system should:

- Allow individuals and small businesses to be able to bring complaints up to the value of $1 million, and
- Be able to make awards up to $1 million.

The ABA has made four submissions to the Ramsay Review, with the latest made on 1 February 2017.

The ABA has also made a submission to the Financial Ombudsman Service (**FOS**) which is examining its terms of reference with a view to increasing eligibility thresholds for individual and small business customers.

It is understood the final report on the EDR system was submitted to the Minister for Revenue and Financial Services at the end of March, and a response from the Government is expected shortly.

What banks will do in the future

Following the completion of the Ramsay Review and the Federal Government's response, the ABA and the banks will determine what action is needed by the industry to make changes to expand and improve the EDR system.

It is anticipated the banking industry will need to work closely with other parts of the financial services industry to deliver any changes, including other industry associations and the EDR schemes. The timeline of this implementation will be reliant on the Government's processes.

Progress to date

2.3 Work with ASIC to expand its regulatory guidance on customer remediation programs from personal advice to all financial advice and products

ASIC published its *Regulatory Guide 256: Client review and remediation programs conducted by advice licensees* [RG 256] on 15 September 2016.

The ABA supported RG 256 covering all types of financial advice and financial products, meaning this guidance would impact across all businesses in banks, not just wealth management but retail banking and other businesses too.

Banks are currently conducting assessments to ensure their policies and procedures align with RG 256. Changes will be made over time to ensure policies and systems remain fit for purpose and as remediation programs are needed and introduced.

What banks will do in the future

The major banks have implemented RG 256 requirements in their wealth management businesses.

The ABA will provide an update by mid-September 2017 to indicate how banks' policies and procedures have been adjusted over the year since RG 256 was published by ASIC and to demonstrate how changes made reflect RG 256 and have impacted on specific remediation programs.

Progress to date

2.4 Evaluate the establishment of a mandatory, prospective last resort compensation scheme covering financial advisers

The industry has engaged closely with the Federal Government and other stakeholders, including the FOS on this important matter over the last year.

The Ramsay Review is due to publish an issues paper shortly on a proposed last resort compensation scheme. The ABA and the banks have finalised a set of design principles covering the scope and operating structure for a potential scheme.

The industry supports the establishment of a mandatory, prospective last resort compensation scheme for financial advice. Such a scheme would provide compensation to individuals and small businesses who have received poor financial advice, and have not been paid a determination made by an approved EDR scheme, due to the validated insolvency or wind up of financial advice businesses, where all other redress avenues have been exhausted.

In reality, the financial and prudential strength of the banks means bank customers would not need to access such a scheme with banks being able to directly remediate their customers if things go wrong. However, the banks believe such a scheme is important to rebuild trust in financial advice and as part of the reforms to create financial advice as a trusted profession.

The final report on the expanded terms of reference is due to be handed to the Federal Government by the Ramsay Review by the end of June.

What banks will do in the future

The ABA will make a submission on the issues paper, which is due to be published shortly by the Ramsay Review. This submission will comprehensively detail our proposal for a last resort compensation scheme.

The industry believes it is important to focus the scheme on financial advice. Banks are prudentially regulated entities, and while it is important for the overall credibility of financial advice for a scheme to be in place, it is not appropriate to expand such a scheme to cover other products and services, and therefore expect banks to cover the potential losses of non-bank entities for offering poor products, providing poor services or taking unreasonable risks in less regulated areas. This moral hazard would translate into real financial and prudential risks for banks as well as our customers and investors. It could also expose banks to the future losses arising from the 'shadow banking' sector, such as managed investment schemes, and could create stability risk.

A scheme should also be accompanied by improvements to regulatory standards to ensure all financial advice businesses have in place adequate financial requirements and compensation and insurance arrangements not just when they seek and are granted an Australian Financial Services (**AFS**) licence by ASIC, but ongoing.

Importantly, a scheme should be prospective and should not address the existing unpaid FOS determinations, with an alternative solution needed to fix this problem where customers of non-bank financial advice businesses have not received redress related to past disputes.

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

Our commitment to you:	*We will ensure the highest standards of whistleblower protections by ensuring there is a robust and trusted framework for escalating concerns. We will standardise the protection of whistleblowers across banks, including independent support, and protection against financial disadvantage. As part of this, we will work with ASIC and other stakeholders.*

Progress to date

3.1 Ensure the highest standards of whistleblower protections in the banks

On 21 December 2016, the ABA published new *Guiding Principles – Improving Protections for Whistleblowers* to help banks ensure their whistleblower policies meet the highest standard.

Promontory Australasia conducted a review of whistleblower programs in Australia and internationally, including United States, Canada, United Kingdom and parts of Europe. The review identified the core elements of a best practice whistleblower program. The review also found Australia's banks have whistleblower programs that in most cases meet or exceed global best practice. The report is available here.

Therefore, the banks have identified that in order to improve their whistleblower protections and encourage a 'speak up' culture, they needed to make sure their policies translate into practice. This means, among other things, a banks' whistleblower policy is endorsed by the Board and supported by an 'executive champion'. The policy should cover a broad range of disclosures, provide anonymity and be monitored and evaluated for effectiveness. The policy must also provide procedural fairness and a zero tolerance of retaliation against whistleblowers.

The Guiding Principles were developed following consultations with stakeholders, including ASIC, Governance Institute, Finance Sector Union (**FSU**) and individuals with experience as whistleblowers. The Guiding Principles are available to view here.

The original implementation date was 30 June 2017 for all banks, however, the major banks implemented the Guiding Principles by 31 March 2017.

Case Study: Supporting whistleblowers

NAB's executive leadership team are providing strong and visible leadership, matched with real action, to support and protect whistleblowers. NAB's whistleblower policy has been implemented and supported by:

- *Approval from the Board Audit Committee. A refreshed Whistleblower Policy ensures ease of use and clarity of process for whistleblowers.*
- *The appointment of David Gall (Chief Risk Officer) as the 'executive whistleblower champion' sets the tone from the top that actively encourages and supports whistleblowing.*

- *The piloting of a whistleblower champion network to promote awareness of the whistleblower program and to sustain a culture of speaking up safely.*
- *The allocation of financial and human resources to support the whistleblower program, including funding for:*
  - *The appointment of a Head of Whistleblower Program dedicated to supporting and protecting whistleblowers.*
  - *An independent external reporting channel (KPMG FairCall).*
  - *Committing to participate in phase 2 of the Griffith University study (Whistling While They Work).*

NAB's executive leadership team and the Board Audit Committee have both requested regular reporting from the Whistleblower Program, to the extent permissible by law, to ensure that the program receives the support required to meet its objectives.

What banks will do in the future

The non-major banks are reviewing their whistleblower programs and making any changes to ensure they meet the Guiding Principles. This will be completed by 1 July 2017.

Given recent Government and regulatory reviews have identified whistleblower laws governing the broader corporate sector are considered to be comparatively weak, the banking industry is contributing to improving whistleblowing standards. The outcome should be the development of a stronger and consistent whistleblower framework for corporations in Australia.

Banks do not support amending laws to introduce financial rewards for whistleblowers or a compensation fund for corporations in Australia. It is critical that each corporation makes sure it has policies and practices that are best practice and where compensation is appropriate, to make sure this is available.

The ABA welcomes the ongoing attention on this important issue and will, if necessary, amend our Guiding Principles as standards evolve and legislation changes.

4. Removing individuals from the industry for poor conduct

Our commitment to you:	*We will implement an industry register which would extend existing identification of rogue advisers to any bank employees, including customer facing and non-customer facing roles. This will help prevent the recruitment of individuals who have breached the law or codes of conduct.*

Progress to date

4.1 Implement an industry register or mechanism to identify individuals who have breached the relevant law or codes of conduct so employers can make their own informed recruitment decisions

Significant work has been undertaken to meet this initiative.

Financial advice banks adopted the ABA's Reference Checking & Information Sharing Protocol for financial advisers from 1 March 2017[5]. The protocol is based on a series of fact-based questions about the performance history of financial advisers focusing on compliance, risk management and advice quality. The protocol aims to promote better information sharing, improve reference checking, and help employers make informed recruitment decisions about financial advisers.

[5] http://www.bankers.asn.au/financial-advice

Banks are also now finalising a new Conduct Background Check Protocol for bank employees. This new protocol will apply to employees across the banks and will be published soon. The ABA has completed a privacy impact assessment for this new protocol. The major banks have committed to adopting the protocol from 1 July 2017 and other banks by 1 October 2017.

These protocols will improve recruitment practices across banks.

What banks will do in the future

Banks are currently operationalising and developing detailed implementation plans for the respective protocols.

Some banks and other stakeholders, such as the FSU, have raised concerns about how these protocols may be implemented. These are legitimate concerns that seek to ensure employees who have not engaged in any wrongdoing are not unfairly impacted. The ABA and the banks are taking time to engage with employees, union representatives and other stakeholders to ensure these concerns are adequately addressed.

At the same time, work is underway with the banks considering how the Conduct Background Check Protocol for bank employees can be implemented. This includes:

- Communicating the process to employees
- Making changes to policies and procedures, recruitment processes and employment contracts (where required)
- Updating staff training for recruitment and workplace relations teams to ensure they are properly briefed and supported, and
- Communicating the requirements to external recruitment parties.

Banks are also working through some complex legal issues and divergent stakeholder views about the introduction of an industry register. Such a register is not intended to be a ‘black list’ or ‘banning register’ as has been reported by some commentators, but is intended to provide information during the hiring process about previous conduct history so that banks can make their own informed recruitment decisions. A register would be a source of information to support the operation of the protocols, similar to the existing Financial Adviser Register (**FAR**) administered by ASIC.

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

Our commitment to you:	*We will bring forward the review of the Code of Banking Practice. The Code of Banking Practice is the banking industry’s customer charter on best practice banking standards, disclosure and principles of conduct. The review will be undertaken in consultation with consumer organisations and other stakeholders, and will be completed by the end of the year.*

Progress to date

5.1 Bring forward the independent review of the Code of Banking Practice with a view to strengthening banking practices and standards

On 7 July 2016, Mr Phil Khoury, Managing Director of Cameron Ralph Pty Ltd, was appointed to conduct an independent review of the Code of Banking Conduct (Khoury Review).

The next review of the Code of Banking Practice was scheduled to take place in 2017, but the industry felt it was appropriate to bring this forward to 2016.

The review was conducted over a period of approximately seven months. During that time, Mr Khoury consulted extensively with a wide range of stakeholders, including consumer and community groups, small business and farming representatives, banks, regulators, ombudsmen, government representatives, politicians and other stakeholders.

The findings of the Khoury Review were published on 20 February 2017[6]. The terms of reference were deliberately broad to allow customers and stakeholders to raise any concerns or issues. The final report contains 99 recommendations; although many of the recommendations cover multiple things meaning there are actually many more recommendations. The final report also made some observations about the culture in banks, reflecting input from some customers.

The industry response on the Khoury Review was published on 28 March 2017[7]. Banks support the vast majority of the recommendations; supporting 61 in full and 29 in principle or in part. The remaining nine are either still being considered due to the complexity of the issue or due to ensuring banks meet their legal obligations, including competition laws, or will not be adopted with the banks offering an alternative approach to address the underlying issue.

The Australian Small Business and Family Enterprise Ombudsman has also recently conducted an inquiry into small business lending. Many of the recommendations are consistent with the recommendations in the Khoury Report.

The industry response on this inquiry was published on 28 April 2017[8]. Banks recognise small businesses play a pivotal role in our national economy and in local communities and it is important they can readily access affordable finance to invest and grow. The industry supported these recommendations and will make sure for new or renewed contracts for total loans under $3 million, changes to simplify contracts are done no later than the end of 2017.

The ABA will include these changes in the new Code of Banking Practice, but they will be implemented and operationalised by the banks ahead of other new obligations in the new Code.

Case Study: Making it easier for customers to close credit cards

Commonwealth Bank listens to its customers and invests substantially in technology and products that will improve their financial wellbeing. Commonwealth Bank heard customers asking for more from their banks when it came to credit cards.

In March 2017, Commonwealth Bank announced that credit card customers will soon be able to close their credit card account online immediately. The fully digital experience will allow customers to close their credit card using the CommBank app or online without the need to go into a branch or speak to someone over the phone. Online credit card closure is another step on the path to providing customers with greater control of their financial wellbeing.

Commonwealth Bank introduced “Lock, Block, Limit” in 2014 to provide customers with extra security and convenience, in real-time. Last year, Commonwealth Bank added functionality to impose spending caps and apply real-time credit limit decreases. The credit limit decrease feature allows customers to immediately reduce the amount of credit available on their card temporarily or permanently online.

This, together with the upcoming credit card close feature, will fully address recommendation 26 made by Mr Khoury. Commonwealth Bank expects to launch the credit card online closure feature later in 2017.

[6] http://cobpreview.crkhoury.com.au/
[7] http://www.bankers.asn.au/media/media-releases/media-release-2017/aba-responds-to-code-of-banking-practice-review
[8] http://www.bankers.asn.au/media/media-releases/media-release-2017/aba-responds-to-carnell-inquiry-recommendations

What banks will do in the future

Banks are now focused on making the changes recommended by Mr Khoury. The industry has made the following commitments:

- The industry will work with the Code Compliance Monitoring Committee (**CCMC**) on its future role and strengthening the governance of the Code. The CCMC mandate will be redrafted to make it clearer, ensuring there is greater awareness of, and understanding of, the CCMC and its role. The CCMC will have greater powers to monitor compliance and investigate breaches. The role of the CCMC will also need to be examined as part of working with ASIC on approving the new Code.
- Where the ABA has noted it will require additional time to work through a recommendation or is not able to support a recommendation, the industry will consider alternative options that will address the underlying issue and deliver the right outcome for customers. Further discussions will take place with relevant stakeholders.
- The ABA will conduct stakeholder engagement meetings and consultations to discuss the industry response and identify a plan for the redraft of the Code. This includes areas that were not addressed in the final report but the industry considers important to be in the new Code, such as farming issues and accessibility to retail banking, particularly for customers with a disability.
- The industry recognises the importance of making sure the views of our stakeholders are taken into account in the redrafting process, particularly where further work is needed to identify the right path forward. As with the review process, the ABA will ensure there continues to be full consultation with our stakeholders and other interested parties through the drafting process for the new Code. Interested parties are invited to express their interest in being involved in this consultation by contacting the ABA.
- Independent experts will be appointed to work with the ABA to redraft the Code and will bring in necessary skills, such as consumer-friendly writing and communicating, to work with the ABA, the banks and key stakeholders.
- The industry will also be working with ASIC on approving the Code
- The industry is aiming to finalise a new Code of Banking Practice by the end of 2017. This timetable is ambitious, but it is recognised that our customers, stakeholders and the community expect the banks to make these changes as soon as possible.

Banks recognise there are currently a number of Government reviews that may have direct implications for the recommendations included in the Khoury Report, including in relation to the EDR system and credit cards reforms. These reviews are being considered as part of the redraft of the Code.

6. Supporting ASIC as a strong regulator

Our commitment to you:	*We support the Government's announcement to implement an industry funding model. We will 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.* *We will also work with ASIC to enhance the current breach reporting framework.*

Progress to date

6.1 Implement an industry funding model that will enhance the ability of ASIC to investigate matters brought to its attention

Banks support a new ASIC Industry Funding Model to make sure the regulator has the resources it needs to administer the law. The new “user pays” model will ensure that the costs of regulation are borne by those entities that have created the need for it.

Banks will contribute to funding in line with the level and intensity of ASIC’s regulatory effort and risk. The new funding arrangements will start in the second half of 2017.

In the meantime, banks are contributing an additional $121 million to boost ASIC’s surveillance and enforcement activities in the areas of financial planning, responsible lending, life insurance, misconduct and breach reporting, until the new funding model can be introduced in law.

6.2 Work with ASIC to enhance the current breach reporting framework

The industry is continuing to work with the Federal Government on the ASIC Enforcement Review, which is due to be completed by December 2017.

Banks support greater clarity around the breach reporting regime.

What banks will do in the future

Treasury is due to release draft regulations shortly for the new funding model. Once released, the ABA will prepare a submission.

On 11 April 2017, the Government released a consultation paper on ‘Self-reporting of contraventions by financial services and credit licensees’ by the ASIC Enforcement Review Taskforce. The ABA and the banks will respond to the paper before 26 May 2017.

Our progress on the additional initiatives

Additional initiatives were announced to supplement the Banking Reform Program and address specific consumer concerns. The industry is making good progress on implementing these additional initiatives.

Making account switching easier

The ABA held a ‘Switching Roundtable’ in March 2017, bringing together regulators, consumer groups, government representatives, banks and the card schemes.

The key points identified as barriers to switching were:

- Difficulty of closing accounts, particularly card schemes
- Difficulty of cancelling and transferring periodic payments
- The slowness and limited scope of the current APCA switching facility[9], and
- The need for simpler explanatory material and better customer education.

Banks are now working through the issues raised at the roundtable by consumer representatives and stakeholders and identifying the best solutions and the associated timeframes to implement solutions. Changes to introduce new standards will need to be supported by the payments industry, card schemes and consumer groups.

The ABA will include the revised industry protocols and standards in the new Code of Banking Practice.

[9] http://www.apca.com.au/about-payments/switching-accounts

Providing better support for small businesses and farmers

For the first time, the new Code of Banking Practice will include a separate section for small businesses with commitments to simplify terms and conditions and give more notice when loan contracts change.

The industry is also developing new industry guidelines on how and when banks can appoint investigative accountants and receivers, administrators or liquidators for a small business or farm property and the use of valuation practices. These new guidelines are being developed in consultation with small business representatives and will be published ahead of the new Code.

Banks also continue to advocate with the Federal and State governments for national farm debt mediation. Farm debt mediation is a simple, structured and confidential negotiation process where an independent mediator assists the farmer and the bank or other lender to reach agreement about current and future debt arrangements.

Supporting customers experiencing financial difficulties and establishing a new debt repayment service with financial counsellors

The industry is improving financial hardship assistance programs with new commitments to be included in the new Code of Banking Practice. For example, banks will proactively identify if someone is at risk of getting into financial difficulty so they can work with their customer to help prevent a situation worsening.

Banks are also working with financial counsellors to establish a new debt repayment service for people struggling with multiple debts. This new service would be free for people to access and get assistance to put in place a repayment plan to pay off their debts with banks and other lenders and creditors. The industry is looking to get this new service up and running in 2017.

Detailed information about banks' financial hardship assistance programs is available at www.doingittough.info.

Other initiatives

Real-time banking

Banks have invested more than $1 billion in the New Payments Platform (**NPP**) which will deliver real-time banking for customers from late 2017.

The NPP will allow fast, flexible payments between Australian bank accounts enabling customers to get their pay transferred from employers or to pay bills straight away.

More information about the NPP is available at www.nppa.com.au.

Fee transparency

Banks are advocating for changes to improve regulated disclosures around fees so customers get better, not more information. It is important for customers to get information in ways they want, whether this is simple, short and online or clicking through or requesting more detailed information and the law needs to change to make sure it keeps up with customer expectations.

The Federal Government supported the recommendation in the final report of the Financial System Inquiry to facilitate innovative disclosure (recommendation 23). The Government has indicated any regulatory impediments will be addressed through legislation.

Detailed information about how consumers can avoid fees is available here.

Affordable banking

Eleven retail banks offer basic bank accounts with no account keeping or transaction fees, free monthly statements and other features for concession card holders.

Detailed information about banks' basic bank accounts is available at www.affordablebanking.info.

Fraud protection

All banks have comprehensive fraud protection systems in place. If a customer contacts their bank about an unauthorised transaction on their account, the bank will open an investigation. As long as the customer did not contribute to the fraud, they will be compensated.

Better qualified financial advisers

The industry is working with the Federal Government, financial planners and consumer groups to improve the professionalism of financial advisers.

Banks are also helping fast-track the introduction of the new standards setting body by funding its establishment funding. Despite being only around 25% of the advice market, banks have an important role to play in fostering better standards across all financial advice businesses.

The new standards setting body is due to be in place by 1 July 2017, with the development and staged implementation of the new professional standards thereafter.

Our ongoing commitment and next steps

The banking industry is committed to delivering better banking for our customers through implementing the initiatives in the Banking Reform Program. The reform program aims to improve customer outcomes.

For the remainder of 2017, the industry will make every effort to ensure our reform program meets the expectations of our customers and other stakeholders and is delivered in a timely and legally compliant manner. The industry will continue to make adjustments to ensure emerging issues are addressed, whether these are generated from Government inquiries and reviews or directly from our customers and their representatives.

The industry will also seek to increase awareness about what banks are doing to respond to the concerns of our customers.

The industry welcomes feedback from the public about the Banking Reform Program. If you have any comments, the ABA encourages you to use the feedback facility on the Better Banking website, go to Have Your Say.

Appendix A: Participating banks

The ABA has 25 member banks, with 21 banks participating in the Banking Reform Program announced on 21 April 2016. The participating banks include:

- AMP Bank[10]
- 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
- Defence Bank
- HSBC
- ING Direct
- Macquarie Bank
- ME Bank
- MyState Bank
- National Australia Bank
- Qudos Bank
- Rabobank
- Rural Bank
- Suncorp Group
- Westpac Banking Corporation

Bank of America, Bank of China, BNP Paribas and United Overseas Bank Limited are not participating in the reform program. These banks are wholesale and specialist banks which provide products, services and solutions mostly to institutional investors, other financial institutions, and high net worth individual or private clients. It is appropriate for these member banks to be outside the program given the overall objective of protection of consumers.

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

Appendix B: Summary of our progress

The Australian banking industry is in the middle of its biggest ever reform program. Over the past year, the industry has launched many initiatives aimed at addressing concerns with banks' conduct and delivering better products, service and culture.

Initiative	Progress	Update
	Better Products	
Real-time banking^	**On track**	Banks have invested more than $1 billion in the New Payments Platform (**NPP**) which will deliver real-time banking for customers from late 2017. The NPP will allow fast, flexible payments between Australian bank accounts enabling customers to get their pay transferred from employers or to pay bills straight away. More information about the NPP is available at www.nppa.com.au.
Account switching^	**On track**	The ABA held a 'Switching Roundtable' in March 2017, bringing together regulators, consumer groups, government representatives, banks and the card schemes. The key points identified as barriers to switching were difficulty of closing accounts, particularly card schemes, difficulty of cancelling and transferring periodic payments, the slowness and limited scope of the current APCA switching facility, and the need for simpler explanatory material and better customer education. Banks are now working through the issues raised at the roundtable by consumer representatives and stakeholders and identifying the best solutions and the associated timeframes to implement solutions. Changes to introduce new standards will need to be supported by the payments industry, card schemes and consumer groups. The ABA will include the revised industry protocols and standards in the new Code of Banking Practice.
Fee transparency^	**Government dependent**	Banks are advocating for changes to improve regulated disclosures around fees so customers get better, not more information. It is important for customers to get information in ways they want, whether this is simple, short and online or clicking through or requesting more detailed information and the law needs to change to make sure it keeps up with customer expectations. The Federal Government supported the recommendation in the final report of the Financial System Inquiry to facilitate innovative disclosure (recommendation 23). The Government has indicated any regulatory impediments will be addressed through legislation. Detailed information about how consumers can avoid fees is available at www.betterbanking.net.au/better-products/fee-transparency.
Affordable banking^	**Ongoing**	Eleven retail banks offer basic bank accounts with no account keeping or transaction fees, free monthly statements and other features for concession card holders. Detailed information about banks' basic bank accounts is available at www.affordablebanking.info.
Fraud protection^	**Ongoing**	All banks have comprehensive fraud protection systems in place. If a customer contacts their bank about an unauthorised transaction on their account, the bank will open an investigation. As long as the customer did not contribute to the fraud, they will be compensated.

Initiative	Progress	Update
Better Services		
Paying bank staff to help customers*	**On track**	The independent review into product sales commissions and product based payments in retail banking ('Sedgwick Review') was published on 19 April 2017. The industry supports all 21 recommendations to improve payments and incentives for bank employees and third parties, such as mortgage brokers, by ensuring they are aligned with good customer outcomes and the performance management and governance structures reinforce ethical behaviour and good culture. Banks are now focused on implementing these recommendations.
Supporting customers in need^	**Ongoing**	The industry is improving financial hardship assistance programs with new commitments to be included in the new Code of Banking Practice. For example, banks will proactively identify if someone is at risk of getting into financial difficulty so they can work with their customer to help prevent a situation worsening. Banks are also working with financial counsellors to establish a new debt repayment service for people struggling with multiple debts. This new service would be free for people to access and get assistance to put in place a repayment plan to pay off their debts with banks and other lenders and creditors. The industry is looking to get this new service up and running in 2017. Detailed information about banks' financial hardship assistance programs is available at www.doingittough.info.
Getting problems fixed*	**Completed ahead of time**	Twenty retail banks have a new, dedicated customer advocate function to help them respond to complaints better and get fairer outcomes for customers. For a list of the customer advocates appointed to date, go to www.betterbanking.net.au/better-service/getting-problems-fixed.
Resolving disputes*	**Government dependent**	The ABA and the banks support improving external dispute resolution (**EDR**) so more people can get help without needing to go to court. Banks support a 'one-stop-shop' for customers who have a dispute with a bank or other financial institution and the system should: • Allow individuals and small businesses to be able to bring complaints up to the value of $1 million, and • Be able to make awards up to $1 million. The industry supports the establishment of a mandatory, prospective last resort compensation scheme for financial advice. Such a scheme would provide compensation to individuals and small businesses who have received poor financial advice, and have not been paid a determination made by an approved EDR scheme, due to the validated insolvency or wind up of financial advice businesses, where all other redress avenues have been exhausted. Banks are working with the Federal Government, ASIC, consumer groups, other industry representatives and the Financial Ombudsman Service as part of the review of the EDR system ('Ramsay Review'). The Ramsay Review handed its report on the EDR system to the Government at end March, with its report on the last resort compensation scheme due by 30 June 2017.

Initiative	Progress	Update
Helping small businesses and farmers*^	**On track**	For the first time, the new Code of Banking Practice will include a separate section for small businesses with commitments to simplify terms and conditions and give more notice when loan contracts change. The industry is also developing new industry guidelines on how and when banks can appoint investigative accountants and receivers, administrators or liquidators for a small business or farm property and the use of valuation practices. These new guidelines are being developed in consultation with small business representatives and will be published ahead of the new Code. Banks also continue to advocate with the Federal and State governments for national farm debt mediation. Farm debt mediation is a simple, structured and confidential negotiation process where an independent mediator assists the farmer and the bank or other lender to reach agreement about current and future debt arrangements.
Better Culture		
Good customer outcomes and sound banking practices*	**On track**	The Sedgwick Review was published on 19 April 2017. The findings of the independent review will assist banks develop overarching principles on remuneration and incentives making sure the way they pay their staff aligns with good customer outcomes and sound banking practices. These new principles will be published by the banks by December 2017 with banks to adopt all of Sedgwick's recommendations as soon as possible.
Protecting whistleblowers*	**Completed by major banks.** **On track for other banks**	The major banks and several smaller banks have already adopted new policies to ensure they have the highest standards of whistleblower protection. Among other things, this means the banks whistleblower policy needs to be endorsed by the Board and supported by an executive champion. The policy should cover a broad range of disclosures, provide anonymity and be monitored and evaluated for effectiveness. The policy must also provide procedural fairness and a zero tolerance of retaliation against whistleblowers. Other banks have committed to complete these changes by 1 July 2017.
Better qualified financial advisers*^	**On track**	The industry is working with the Federal Government, financial planners and consumer groups to improve the professionalism of financial advisers. Banks are also helping fast-track the introduction of the new standards setting body by funding its establishment funding. Despite being only around 25% of the advice market, banks have an important role to play in fostering better standards across all financial advice businesses. The new standards setting body is due to be in place by 1 July 2017, with the development and staged implementation of the new professional standards thereafter.

Initiative	Progress	Update
Stopping poor conduct moving around the industry*	**Additional milestones added, while stakeholder views, legal and other issues are resolved**	Financial advice banks adopted the ABA's new [Reference Checking & Information Sharing Protocol] for financial advisers from 1 March 2017. The protocol aims to promote better information sharing about the performance history of financial advisers focusing on compliance, risk management and advice quality, improve reference checking, and assist employers make informed recruitment decisions about financial advisers. Building on the protocol, the industry is finalising a new Conduct Background Check Protocol for bank employees. This new protocol uses a series of fact-based questions about whether the individual is subject to an ongoing investigation relating to defined categories of misconduct or was dismissed or resigned in specific circumstances relating to material misconduct. This new protocol is due to be published soon, with the major banks committed to adopting it from 1 July 2017 and the other banks by 1 October 2017. The industry is also working through some complex legal issues and divergent stakeholder views about the introduction of an industry register. Such a register is not intended to be a 'black list' or 'banning register' as has been reported, but is intended to provide information about previous conduct history to help improve recruitment practices and decisions. A register supported by a statutory underpinning would overcome some of the legal issues and operational barriers inherent with new standards only being adopted by the banks.
Raising standards through the Code of Banking Practice*	**On track**	The independent review of the Code of Banking Practice ('Khoury Review') was published on 20 February 2017. The final report included 99 recommendations for changes to the Code that would raise standards in banking. The industry supports the vast majority of the recommendations. Banks are now focused on implementing the recommendations by conducting additional consultations with key stakeholders and interested parties. The industry is looking to get the Code approved by ASIC. The industry is also re-examining the industry response to identify areas where banks can take earlier action or where additional action can be taken, whether through the Code or via alternative approaches. It is important that banks meet their legal obligations, including competition laws. The industry has committed to an ambitious timeframe by aiming to have a new Code by the end of 2017.
Supporting a stronger regulator*	**On track**	The industry is supporting a new industry funding model for ASIC to make sure the regulator has the resources it needs. In the meantime, banks are contributing an additional $121 million to boost ASIC's surveillance and enforcement activities in the areas of financial planning, responsible lending, life insurance, misconduct and breach reporting, until the new funding model can be introduced in law. The new funding model is due to commence in July 2017. The industry is also supporting the Federal Government's review of ASIC's enforcement powers. Banks are now preparing a submission on the consultation paper on breach reporting. The review is due to be completed by December 2017.

* Initiatives linked to the original announcement made on 21 April 2016.
^ Initiatives linked to the expanded Banking Reform Program announced on 29 January 2017.