

Banking Reform Program

Report on Consumer Study Wave Two



Banks' success is inextricably tied to the economy. When Australia does well, banks do well.

Australia's banks are key to Australia's economic success. Banks underpin the economy, facilitating the mobilisation of savings to fund the houses we live in, the places we work, and the goods and services we enjoy. The banking industry is an integral part of the lives of almost all Australians, whether they are depositors, borrowers, investors or users of the payments systems.

Nearly 80 percent of all Australian bank profits go straight back to shareholders and the majority of those shareholders are the millions of everyday Australians who own bank shares through their super funds.

Banks recognise that their long term prosperity depends on being truly customer-focused, providing customers with the best products and services for their needs and circumstances.

Banks acknowledge that in the past they have not always achieved this goal.

The ABA Banking Reform Program

To make banking better for customers, in April 2016 the Australian Bankers' Association (ABA) initiated the [Banking Reform Program](#)¹ for consumers across Australia. The Banking Reform Program was developed to protect consumer interests, increase transparency and accountability, and to build consumer trust and confidence in banks.

The Program comprises the following initiatives:

- Reviewing product sales commissions and product based payments
- Making it easier for customers when things go wrong
- Reaffirming support for employees who 'blow the whistle' on inappropriate conduct
- Removing individuals from the industry for poor conduct
- Strengthening the commitment to customers in the Banking Code of Practice⁴
- Supporting ASIC as a strong regulator
- Making account switching easier
- Providing better support for small businesses and farmers
- Supporting customers experiencing financial difficulties and establishing a new debt repayment service with financial counsellors.

The details of these initiatives are outlined in the [appendix](#) of this report.

To raise community awareness of the Program, the industry launched the [Better Banking Campaign](#)² in January 2017.

Over the past 18 months, the banking industry has invested significant resources into: independent reviews, stakeholder engagement, designing guiding principles and beginning the implementation of the initiatives³. Many of the initiatives are now in their implementation phase, and a number of them are nearing completion however, there is still more work to do.

1 <https://www.betterbanking.net.au/>

2 <http://www.bankers.asn.au/media/media-releases/media-release-2016/we-hear-you-banks-announce-more-changes-to-make-banking-better>

3 For more information about the Better Banking campaign, go to www.betterbanking.net.au. For an update on the first year of the Banking Reform Program and the implementation of the initiatives, please read the [annual report](#).

4 The name of this initiative has recently been refined from 'Code of Banking Practice' to 'Banking Code of Practice' for ease of reference.

This research is being conducted to assess consumer perceptions of the Banking Reform Program. This report is the second consumer research study to track the program as it is implemented and progressed. The research for this report was conducted before the Government announced the Royal Commission into misconduct in the financial services industry.

This research complements the work of Mr. Ian McPhee AO, the independent governance expert overseeing the implementation of the initiatives, who publishes quarterly progress reports⁵.

It is acknowledged that building trust and confidence across the banking industry will take time. This second report compares the most recent key measures against the June 2017 baseline to determine the progress of the Banking Reform Program over the past six months.

Why focus on trust?

Trust is a strong and meaningful indicator of how consumers feel towards an industry, company or institution. It is a complex measure, including satisfaction, but also encompassing perception, vicarious views of others' experiences, ethical conduct and moral measures.

The Banking Reform Program also includes objectives on confidence and transparency. The research has been designed to establish baseline measures and track sentiment across all three metrics.

Key Findings

Six months on, the research shows that consumers' perceptions towards the banking industry are improving. Consumers are feeling more positive about the direction that the banking industry is headed. Measurements on banks becoming more customer-focused and helping customers navigate choices to make the best decisions for themselves, have increased.

- 77% of consumers think their main bank 'is becoming more customer-focused' (up 14 percentage points since June 2017).
- 44% of consumers now feel the industry is headed in the right direction (up 5 percentage points since June 2017).

Consumers remain positive towards the Banking Reform Program, over half of consumers believe it will have a positive impact on levels of trust in the industry and positively influence confidence and transparency. Customer awareness of the specific Banking Reform Program initiatives has improved since the last survey:

- 46% are now aware of the initiative to help customers understand how they can switch banks (up 4 percentage points since June 2017).
- 47% are now aware of the initiative to establish standards that banks must follow to correct issues and compensate customers when things go wrong (up 6 percentage points since June 2017).

⁵ <https://www.betterbanking.net.au/accountability/>

Customers are satisfied with how well their bank has delivered two program initiatives: removing individuals from the industry for poor conduct (52% satisfaction) and strengthening the commitment to consumers in the Banking Code of Practice (50%). However, there has been a marginal drop (although a largely statistically insignificant drop) in satisfaction in delivery of the other 10 initiatives.

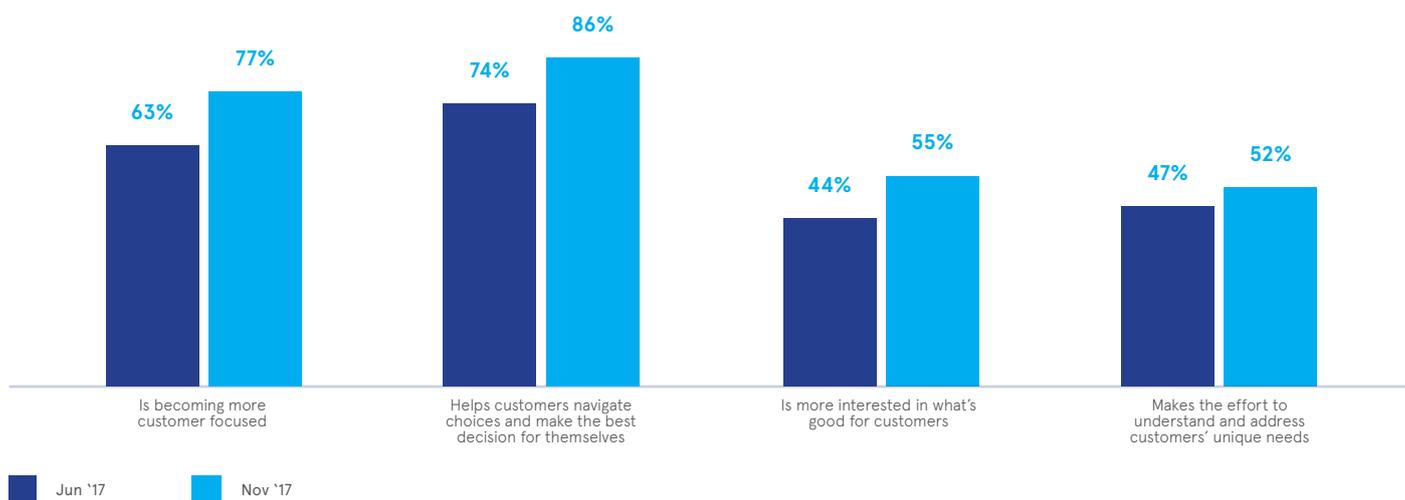
The key performance indicators for the Banking Reform Program are trust, confidence and transparency. Trust and confidence in the industry have increased marginally since June 2017. As in the first wave of research, consumers show a greater degree of trust and confidence in their main bank when compared to the industry as a whole.

- Consumers' level of trust in their main bank has increased by 3 percentage points since June 2017, whereas trust in the industry has only increased by 1 percentage point.

These small changes are to be expected, trust and confidence take time to build and are affected by many factors. The sense that consumers see the industry heading in the right direction should set the foundation for trust and other measures to build over time.

1 Perceptions of banks' focus on customers have improved significantly. 77% per cent of consumers agreed that their main bank 'is becoming more customer-focused', 14 percentage points higher when compared to June 2017. 86% of consumers indicated their bank helps customers navigate choices to make the best decisions for themselves, 12 percentage points higher than June 2017. And 55% believe their bank is more interested in what's good for customers, an 11 percentage points improvement. These are significant improvements in consumers belief that the banking industry is putting their needs first.

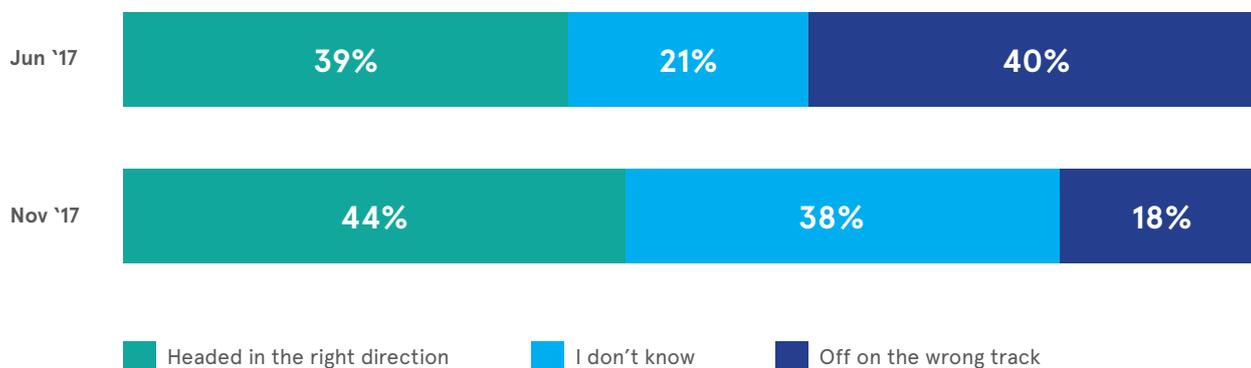
Thinking back over the past 12 months, which statement best reflects how you feel about your main bank?



Question C12. Thinking back over the past 12 months, which statement best reflects how you feel about your main bank? (The data above indicates the percentage of Australians who selected each of the two options available per sub-question.)

2 Consumers' perceptions towards the industry are improving. When compared to the first wave of research, there has been a positive shift in sentiment towards the direction that the banking industry is headed. 44% of consumers now feel the industry is headed in the right direction, a 5 percentage point increase compared to June 2017. More importantly the number of consumers who feel the industry is moving in the wrong direction has dropped significantly, down to 18% compared to 40% in June 2017.

Do you think the industry as a whole is heading in the right direction, or off on the wrong track?

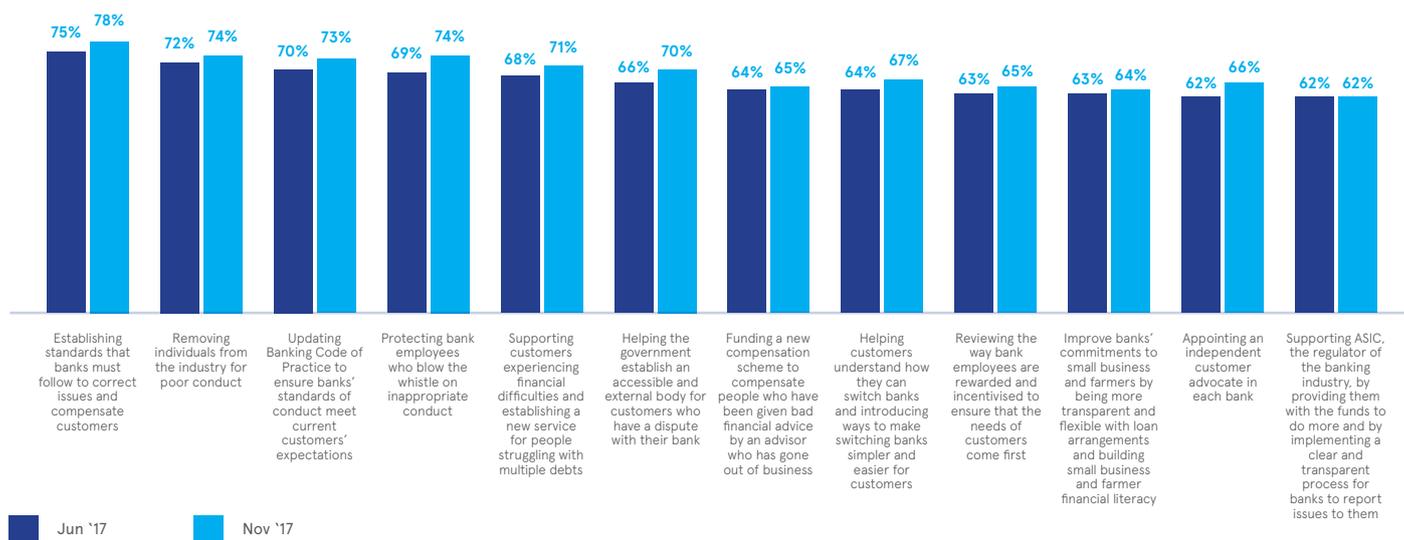


Question B2. Thinking about the banking industry, do you think the industry as a whole is heading in the right direction, or off on the wrong track? (The data above indicates the percentage of Australians who selected each of the three options available.)

3 Receptivity to the Banking Reform Program remains positive. In line with the June 2017 study, over half of consumers surveyed believe that the Banking Reform Program will have a positive impact on levels of trust in the banking industry and will positively influence confidence and transparency.

4 The level of importance that consumers place on the Banking Reform Program initiatives remains strong, with half the initiatives scoring 70% or higher and every initiative scoring at least 62%. Increases in importance were noted across almost all of the initiatives, with the biggest improvements in protecting bank employees who blow the whistle on inappropriate conduct, supporting customers experiencing financial difficulties, helping the government establish an accessible and external body for customers who have a dispute with their bank, and establishing a dedicated customer advocate.

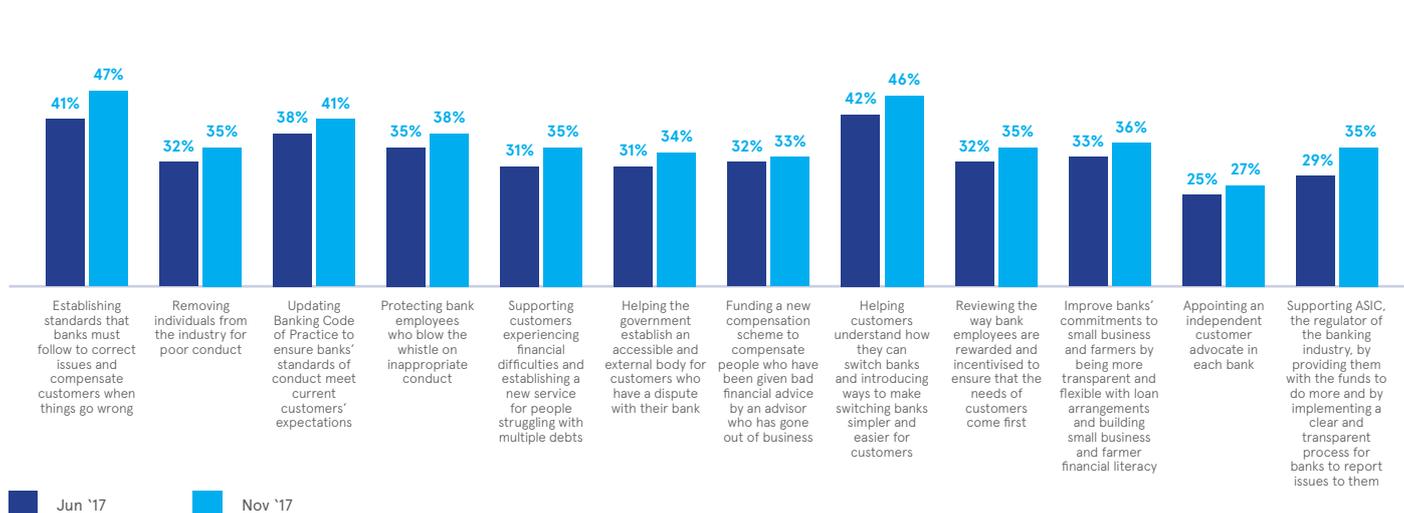
Thinking about these initiatives, how important are they in making banking better for you?



Question D3: Thinking about these initiatives, how important are they in making banking better for you? Please score these from 1-9, where 1 is "not important at all" and 9 is "very important" to you. (The data above indicates the percentage of Australians who selected a score of 7-9 (Top 3 Box).)

5 Awareness of each specific initiative of the Banking Reform Program has increased compared to June 2017. The biggest increases were in establishing standards that banks must follow to correct issues and compensate customers when things go wrong, up 6 percentage points; supporting ASIC, the regulator of the banking industry, by providing them with the necessary funds, up 6 percentage points; helping customers understand how they can switch banks, up 4 percentage points; and supporting customers experiencing financial difficulties, up 4 percentage points. Overall awareness of the Banking Reform Program remained unchanged at 54%.

Which of the following initiatives are you aware of?

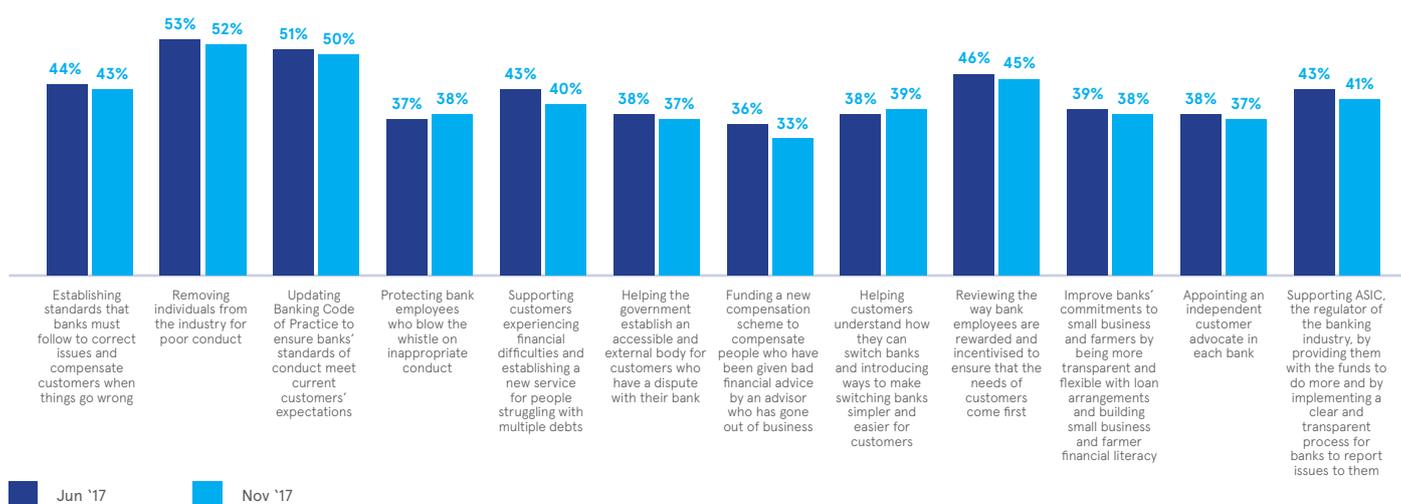


Question D2: Over the past 12 months the banking industry has introduced a number of initiatives to make banking better for Australians. This series of changes is collectively called the Banking Reform Program. Which of the following initiatives are you aware of? (The data above indicates the percentage of Australians who selected yes to each of the initiatives.)

Many of the initiatives have now been implemented, however others will continue to be bedded down over the next few years. This accounts for the varied results for the different initiatives, in particular when it comes to consumers' perceptions of how well their main banks have delivered these initiatives.

6 Consumers indicate solid satisfaction in how well their bank has delivered two of the program initiatives; namely removing individuals from the industry for poor conduct (52%) and strengthening the commitment to consumers in the Banking Code of Practice (50%). However, there has been a marginal drop in satisfaction of the delivery in ten out of the twelve initiatives compared to June 2017, although these changes for the most part are not statistically significant.

How well do you feel your main bank has delivered against each of the following in the past 12 months?



Question D4: Finally, how well do you feel your main bank has delivered against each of the following in the past 12 months where 1 is "delivered extremely poorly" and 9 is "delivered extremely well". (The data above indicates the percentage of Australians who selected a score of 7-9 (Top 3 Box).)

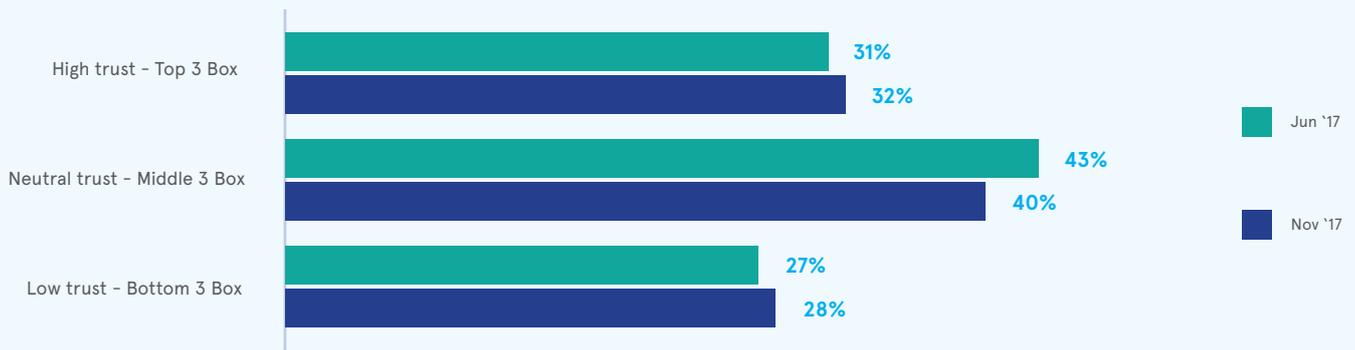
7 Trust, confidence and transparency: Key performance indicators.

The core focus of the Banking Reform Program is to protect consumer interests, increase transparency and accountability, and to build consumer trust and confidence in banks. The research monitors trust, confidence and transparency in the industry to help gauge progress. However, it should be noted that these factors take time to shift. Changes across these three measures are the result of multiple factors playing out, each of which makes a positive (or negative) contribution to a consumers' overall level of trust and confidence.

For the banking industry, stability, reliability and regulations drive current trust levels. Consumers who show high levels of trust in banks are most likely to indicate these three factors as reasons for trusting the industry. This sentiment is in line with the June 2017 research.

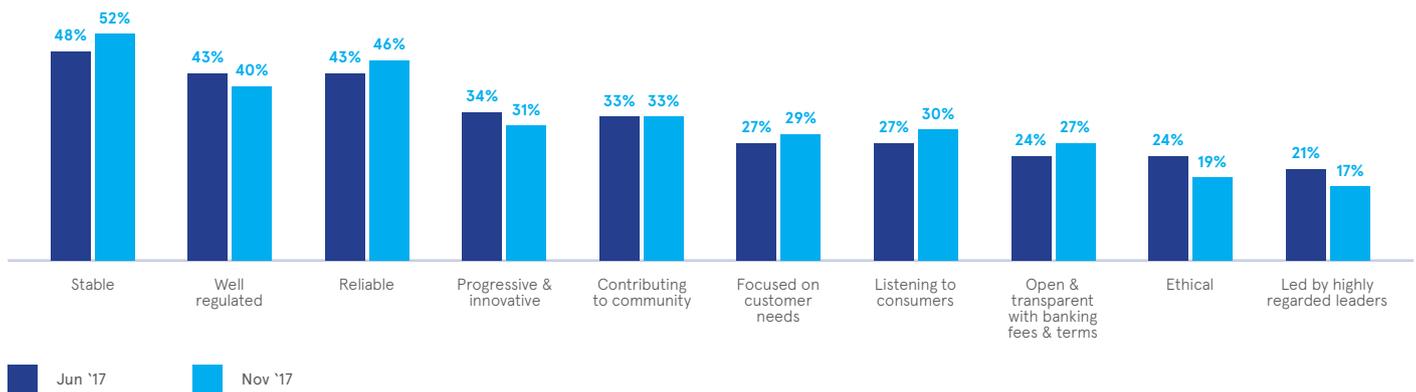
Consumers with lower levels of trust continue to believe that the industry is profit driven, not focused on customer needs and not open or transparent with banking fees and terms. Again, this remains in line with the research in June 2017.

Trust in the banking industry



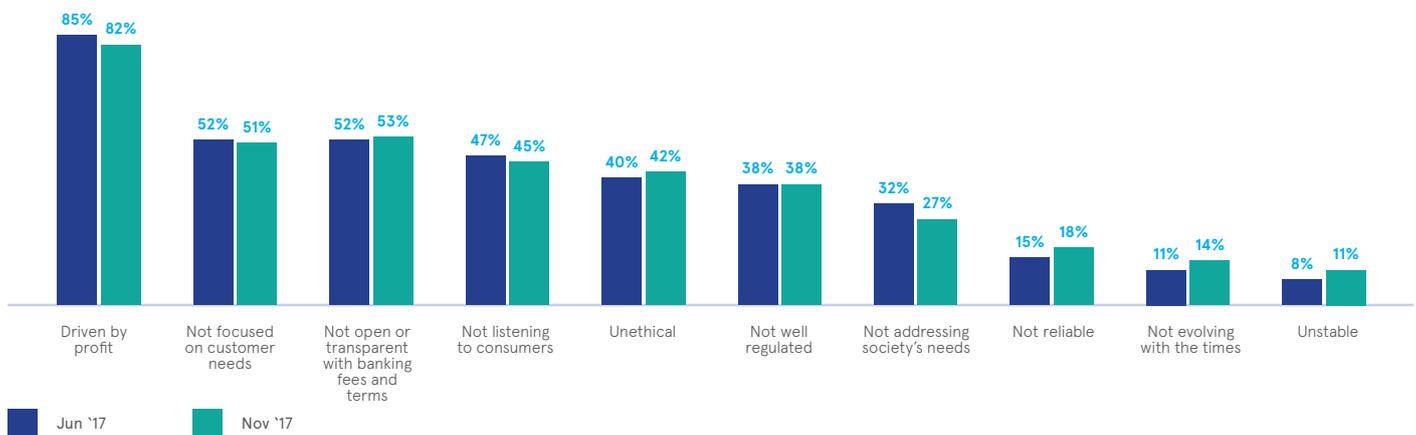
Question B3: How much do you trust the banking industry to do what is right? (The data above indicates the percentage of Australians who selected a score of 7-9 (Top 3 Box), 4-6 (Neutral) and 1-3 (Bottom 3 Box).)

Sentiments of those who have high levels of trust in the industry



Question B4: Which of the following best describes why you feel this way? The banking industry is (The data above indicates the percentage of Australians who selected each of the ten options available.)

Sentiment of those who have neutral and low levels of trust in the industry



Question B5: Which of the following best describes why you feel this way? The banking industry is... (The data above indicates the percentage of Australians who selected each of the ten options available.)

8 Top drivers by program objective

When compared to June 2017 the initiatives that are likely to have the greatest impact on building trust and confidence remain similar, with a few exceptions (those highlighted in blue). The most impactful and influential initiatives for driving trust, confidence and transparency are: demonstrating commitment to the Banking Code of Practice, and supporting customers experiencing financial difficulties. Consumers want reassurance that the foundations of good banking practice are in place and complied with.

The analysis indicates that supporting customers experiencing financial difficulty and removing individuals from the industry for poor conduct have increased in relative importance in terms of likely impact on trust. Dealing with poor conduct in the most effective way, and ensuring the highest standards of whistleblower protection in banks have increased in importance as drivers of consumer confidence, whilst evaluating the establishment of a mandatory prospective compensation scheme covering financial adviser has become a more influential driver of transparency compared to June 2017.

Top drivers by program objective:

Trust

- 1 Strengthening the commitment to customers in the Banking Code of Practice
- 2 Supporting customers experiencing financial difficulty and establishing a new debt repayment service
- 3 Removing individuals from the industry for poor conduct
- 4 Establishing a dedicated Customer Advocate in the banks
- 5 Reviewing products sales commissions and product passed payments
- 6 Evaluate the establishment of a mandatory prospective compensation scheme covering financial advisers
- 7 Providing better support for small businesses and farmers
- 8 Supporting with ASIC as a strong regulator

Transparency

- 1 Strengthening the commitment to customers in the Banking Code of Practice
- 2 Supporting customers experiencing financial difficulty and establishing a new debt repayment service
- 3 Supporting with ASIC as a strong regulator
- 4 Establishing a dedicated Customer Advocate in the banks
- 5 Reviewing products sales commissions and product passed payments
- 6 Evaluate the establishment of a mandatory prospective compensation scheme covering financial advisers
- 7 Providing better support for small businesses and farmers

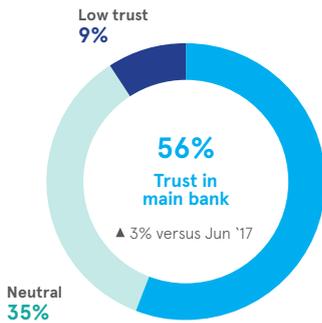
Confidence

- 1 Supporting customers experiencing financial difficulty and establishing a new debt repayment service
- 2 Strengthening the commitment to customers in the Banking Code of Practice
- 3 Ensure the highest standards of whistleblower protection in banks
- 4 Removing individuals from the industry for poor conduct
- 5 Establishing a dedicated Customer Advocate in the banks
- 6 Evaluate the establishment of a mandatory prospective compensation scheme covering financial advisers
- 7 Reviewing products sales commissions and product passed payments
- 8 Providing better support for small businesses and farmers

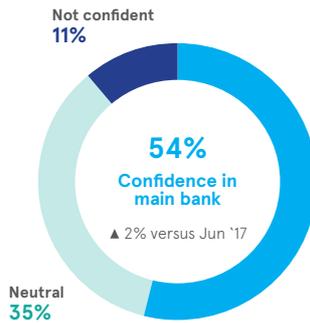
- 9 Trust and confidence have marginally increased compared to June 2017.** In line with the first wave of research, consumers express stronger levels of trust and confidence in their main bank compared to the industry as a whole. The most recent research indicates that increases in trust and confidence are also greater for consumers' main bank compared to the industry as a whole, with trust increasing 4 percentage points and confidence growing by 2 percentage points. These small shifts are in line with expectations given trust and confidence take time to build and are a result of a combination of factors.

As with the June 2017 research, consumers indicate a more positive attitude to the levels of transparency in their main bank provider versus the industry. However there has been little to no change in this score in the past six months.

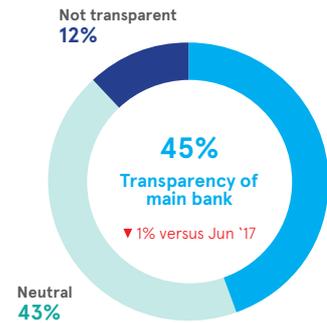
Trust, confidence and transparency in main bank



Question C9. How much do you trust your main bank to do what is right based on a scale of 1-9? Please use a 1 to 9 scale, where 1 means you "do not trust them at all" and 9 means you "trust them completely". (The data above indicates the percentage of Australians who selected a score of 7-9 (Top 3 Box), 4-6 (Neutral) and 1-3 (Bottom 3 Box).)

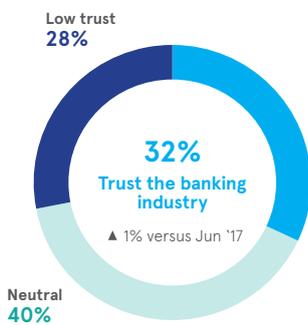


Question C11. Overall how much confidence do you have in your main bank to do what is right? Please indicate using a scale of 1 to 9 scale, where 1 is "not confident at all" and 9 is "very confident". (The data above indicates the percentage of Australians who selected a score of 7-9 (Top 3 Box), 4-6 (Neutral) and 1-3 (Bottom 3 Box).)

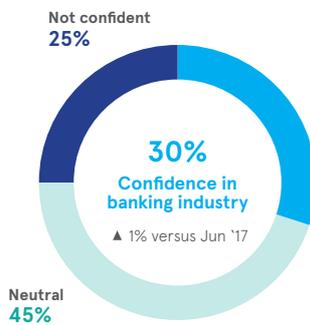


Question C10. Overall how transparent do you feel your main bank is in the way it operates? Please use a 1 to 9 scale, where 1 means "not transparent at all" and 9 means "completely transparent". (The data above indicates the percentage of Australians who selected a score of 7-9 (Top 3 Box), 4-6 (Neutral) and 1-3 (Bottom 3 Box).)

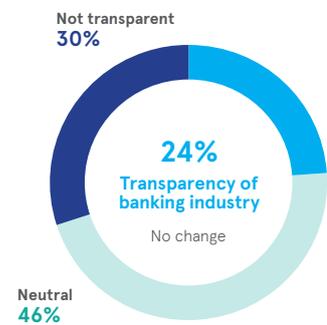
Trust, confidence and transparency in the industry as a whole



Question B3. How much do you trust the banking industry to do what is right? Please use a 1 to 9 scale, where 1 means you "do not trust them at all" and 9 means you "trust them completely". (The data above indicates the percentage of Australians who selected a score of 7-9 (Top 3 Box), 4-6 (Neutral) and 1-3 (Bottom 3 Box).)



Question B8. Overall how much confidence do you have in the banking industry to do what is right? Please indicate using a scale of 1 to 9 scale, where 1 is "not confident at all" and 9 is "very confident". (The data above indicates the percentage of Australians who selected a score of 7-9 (Top 3 Box), 4-6 (Neutral) and 1-3 (Bottom 3 Box).)



Question B7. Overall how transparent do you feel the banking industry is in the way it operates? Please use a 1 to 9 scale, where 1 means "not transparent at all" and 9 means "completely transparent". (The data above indicates the percentage of Australians who selected a score of 7-9 (Top 3 Box), 4-6 (Neutral) and 1-3 (Bottom 3 Box).)

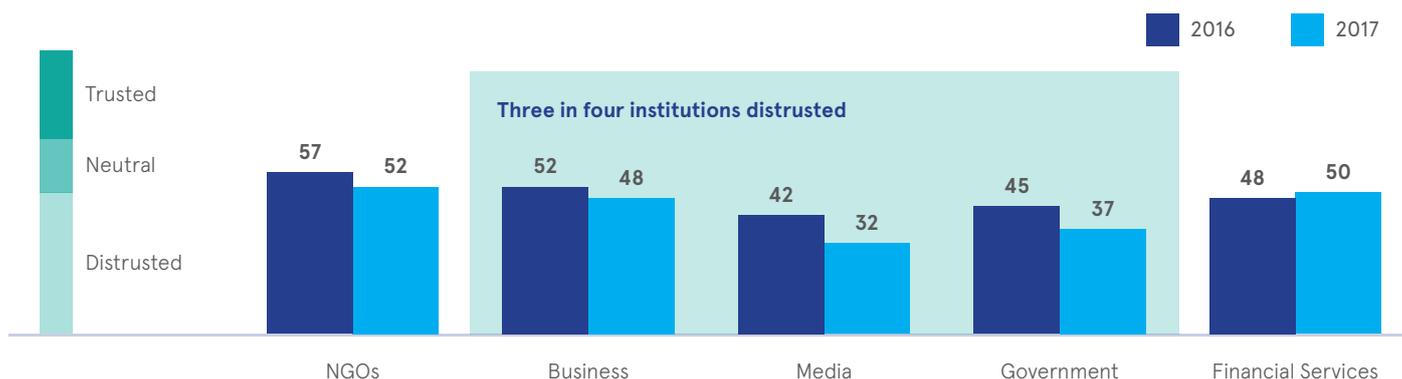
10 In the context of the wider global economy, this marginal increase in trust is a movement in a positive direction. Based on the Annual Edelman Trust Barometer* study released in January 2017, Australia remains 4 points behind the global average. Hence, while there is more work to be done to increase trust in the sector, Australians acknowledge that the banking industry is a well-regulated industry that is more stable than many of its international counterparts in Europe. Overall, the two percentage point year on year increase in trust from 2016 to 2017 in the Financial Services sector, and the increment in Australians' trust from the June 2017 study, has demonstrated a positive shift from 'distrusted' to 'neutral'.

Global trust in the Financial Services sector, 2016 vs. 2017



11 The stronger level of trust and confidence from the June 2017 research is encouraging as it potentially places the Financial Services sector further ahead of other institutions in Australia. Compared to other institutions (NGOs, Government, business and media), we see that 50% of the general population trust the Financial Services sector to 'do what is right'. This 'neutral' trust indicates that the industry sits above trust in business, media and Government, all of which are distrusted, and there has been a 2 percentage point increase in trust since 2016. This reinforces the continued need to work towards strengthening trust between banks and customers, as well as improving the relationship that financial services have with the community that it broadly serves.

Australian trust in NGOs, Business, Media, Government and Financial Services, 2016 vs. 2017



Conclusions

The Banking Reform Program is making progress. Most encouraging is the shift in consumer perceptions and attitudes towards the direction the banking industry is taking, and the growing sentiment that banks are putting customer needs first. Some performance measures show only marginal changes compared to the baseline data of June 2017, but overall the data suggests there is positive movement.

These attitudinal shifts are a positive sign for the Banking Reform Program. Consumers are more familiar with the individual initiatives when compared to six months ago although overall awareness of the program remains unchanged compared to June 2017. As the program becomes more established, more consumers will experience the benefits of each initiative. This could be expected to improve consumer trust and confidence in the banking industry.

The research indicates that stability, reliability and well-founded regulations are critical to the development of trust and confidence. It is important that the industry continues to demonstrate and communicate its commitment to maintaining and evolving these areas.

Perceptions of the industry and banks in general are most likely to be impacted by two specific initiatives; strengthening the Banking Code of Practice and supporting customers experiencing financial difficulties. As each initiative is further integrated into the industry and the banks, and consumers experience the impact of these initiatives on the outcomes of their banking experiences, trust, confidence and transparency will continue to improve.

Appendix

Research Approach

Four-staged approach for the consumer research, combining stakeholder input, qualitative and quantitative research.



Methodology – Research

Following the development of the hypothesis, 12 consumer focus groups were conducted, followed by the first wave of consumer research in June 2017. This was followed with a second round of research in November 2017.

Sample outline for the consumer focus groups

- 12 focus groups, 1.5 hours each
- N=8 per focus group (a total of 96 Australians)
- Conducted in Sydney, Melbourne, Brisbane and Toowoomba
- Representative across demographics
- Conducted in May 2017

Sample definition for the online survey

- N=1000 Australians aged 18 years old and above
- Nationally representative across state/region/territory
- Nationally representative across gender and age
- Good spread across income and education levels
- All data validity at 95% confidence level with a margin of error of 3.1%

Reference for Banking Reform Program Initiatives⁶

Initiative	Statements posed to respondents regarding importance of initiatives	Statements posed to respondents regarding delivery of initiatives
Reviewing product sales commissions and product based payments	Reviewing the way bank employees are rewarded and incentivised to ensure that the needs of customers comes first.	Bank employees are motivated to do what's right by customers not by what is more beneficial to them.
Establishing a dedicated Customer Advocate in the banks	Appointing an independent customer advocate in each bank. The role of the customer advocate is to help ensure customers have a voice and they have another avenue for their complaints to be heard.	There is someone in the bank who represents my interests as a customer and who will review my complaints objectively and independently of the bank.
Support the Government's review into external dispute resolution	Helping the Government establish an accessible and external body for customers who have a dispute with their bank.	There is an alternative and effective avenue outside of the bank that I can use to have disputes with my bank heard.
Work with ASIC to expand its regulatory guidance on customer remediation programs	Establishing standards that banks must follow to correct issues and compensate customers when things go wrong.	When banks get it wrong they will do all they can to make things right for their customers.
Evaluate the establishment of a mandatory, prospective compensation scheme covering financial advisers	Funding a new compensation scheme to compensate people who have been given bad financial advice by an adviser who has gone out of business.	If I received poor financial advice I am confident that I would be compensated.
Ensure the highest standards of whistleblower protection in banks	Protecting bank employees who blow the whistle on inappropriate conduct.	Banks make it safe for their employees, and other business partners to raise issues or concerns of poor conduct within the organisation.
Removing individuals from the industry for poor conduct	Removing individuals from the industry for poor conduct.	I have confidence that bank employees are ethical and act with integrity.
Strengthening the commitment to customers in the Banking Code of Practice	Updating the Banking Code of Practice to ensure banks' standards of conduct meet current customer's expectations.	Banks operate to a high standard of conduct that meets my expectations.
Supporting ASIC as a strong regulator	Supporting ASIC, the regulator of the banking industry, by providing them with the funds to do more and by implementing a clear and transparent process for banks to report issues to them.	The finance sector is overseen by strong regulators that keep the banks in check.
Making account switching easier	Helping customers understand how they can switch banks and introducing ways to make switching banks simpler and easier for customers.	Banks are making it easier for customers to switch to another bank.
Supporting customers experiencing financial difficulty and establishing a new debt repayment service	Supporting customers experiencing financial difficulties and establishing a new service for people struggling with multiple debts.	If I ever had trouble repaying my debts I believe my bank would help me get back on track.
Providing better support for small business and farmers	Improve banks' commitments to small businesses and farmers by being more transparent and flexible with loan arrangements and building small business and farmer financial literacy.	Banks support small business and farmers to be successful.

⁶ For more information about the Banking Reform Initiatives, go to www.betterbanking.net.au

Methodology – Driver Analysis

Driver analysis identifies the effect of each initiative on trust, transparency and confidence, in order to provide focus for the industry moving forward.

Detailed Methodology: At 95% confidence interval, researchers conducted a multivariate regression driver analysis, built on a linear probability discrete choice model for both importance as well as trust, transparency and confidence. This meant that:

- Each initiative was identified as a potential driver and converted into a dichotomous discrete 0/1 variable per response. Each response was recoded as 0 if a respondent selected a score between 1-6, and recoded as 1 if a respondent selected a score between 7-9 on the scale.
- This was performed for the questions on initiative importance, trust, transparency and confidence, and a linear relationship between two variables (importance and trust or confidence or transparency) was then established.
- From this, Edelman Intelligence measured the likelihood that perceived importance of an initiative would statistically predict the trust consumers have that the Banking Reform Program would increase trust, transparency or confidence`.
- Following analysis, quadrant maps were plotted based on stated importance of Banking Reform Program initiatives versus the derived impact on trust, transparency and confidence, to highlight key focal areas for the Banking Reform Program to succeed in Australia.

Methodology – Trust Barometer

*The Edelman Annual Trust Barometer has been conducted globally for the past 17 years and includes 28 different countries. The study focuses on shifting levels of trust across the world and across sectors. Each year respondents are asked to rate the importance of a series of attributes in building trust. The analysis focuses on a Top 4 Box approach (ie those who score 6 or more on a 9 point scale) to define those who show some level of trust in an industry, category or institution.

The Banking Reform Program implemented the same framework of questions to assess trust, confidence and transparency in the banking sector. The analysis focused on a Top 3 Box approach (ie those who score 7 or more on a 9 point scale) to define those who showed a strong level of trust, confidence and perceived transparency in the industry. This research was looking to identify consumers who felt strongly (either positively or negatively) towards the areas investigated.