



SPEECH

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SPEECH TO AFR BANKING AND WEALTH SUMMIT

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Good Morning.

When I addressed this Summit last year, I had been in the job for exactly 3 days. Yesterday, I marked my first year in the job, a year that has felt like 500 years.

In discussing the Edelman Global Trust Barometer last year, and all that it says about the rapid decline in trust being experienced by the major institutions of civil societies, Government, Corporations, Media and the Non-Government Sector, I referred to what Edelman identified as an Implosion of Trust. I noted that an implosion of trust brings with it an explosion of scrutiny. This has continued to be true for Australia's banks in the past year.

Within a month of taking on this role, Australian banks not only faced a new bank tax, but more scrutiny and intervention was added to the 50 odd inquiries and reviews they have faced since the GFC. The package announced on Budget night brought:

- A Productivity Commission review of competition in financial services
- An ACCC review of mortgage pricing, along with the establishment of a new, permanent financial services unit within the ACCC with an ongoing oversight role.
- A Banking Executive Accountability Regime giving executive conduct oversight powers to APRA
- A new Product Intervention power to ASIC

In essence, the Government and the Parliament desperately pulled every lever available to them, conduct levers, prudential levers, competition levers to solve an escalating political problem.

All of these external pressures have occurred alongside efforts from the banking industry to transform itself from the inside out.

Since I stood here last year Australian banks have:

- Fully adopted the recommendations of the Sedgewick Report on Remuneration, have set new remuneration principles and are on track to eliminate direct sales targets and replace them with a balanced scorecard model within the timeframe set by Sedgewick.
- Established a Combined Industry Forum with banks and mortgage brokers to deliver a new model of broker payments to eliminate incentives that risk poor customer outcomes.
- Rewritten the Banking Code of Practice which has now been submitted to ASIC for approval. This new Code provides significant new protections for customers and for small businesses.
- Instituted new protections for whistleblowers, to foster a speak out culture; and
- Employed Customer Advocates to improve the customer focus in their businesses.

These reforms are occurring alongside other self-regulatory improvements such as the adoption of the Banking and Finance Oath and the move to greater professionalization.

And of course, the year ended with the establishment of a Royal Commission into Financial Services.

With that decision, banks effectively moved from the febrile political sphere of Canberra to the sober, judicial sphere of Commissioner Ken Hayne's hearing room in Melbourne.

As you've all seen, this judicial sphere is by no means any more comfortable for banks.

But it does have the potential to be more thoughtful and reflective in drawing its conclusions.

The Royal Commission provides an opportunity, largely lacking in the past two years, for the regulation of banks and the public policy that underpins it, to be considered in its entirety, to be based on evidence and designed for the Australian system, not grafted on from another jurisdiction with vastly different characteristics.

It remains to be seen if this opportunity is realised, but the fact that the Commission has invited submissions on a broad range of policy questions before reaching final positions is a promising sign.

Ultimately, any recommendations of the Royal Commission will fall to Government to adopt and implement. If we want Australia to have the best possible banking system, we have to hope for some balance.

A balance between the needs of all customers, including the most vulnerable, with those of shareholders, the Australian economy and the community as a whole.

There is much at stake.

A today's event, it seems timely to remind ourselves of why banks exist and why they matter.

Banks allocate funds from savers to borrowers and this facilitates and funds:

- the homes we live in – last year Australian banks funded 925,000 new mortgages
- the places we work – 375,000 new small business were approved in 2017
- the goods we buy, use and enjoy – Australians have 17 million credit cards, facilitating travel, leisure, and a multitude of purchases.

Banks are also the country's largest taxpayers, remitting \$14bn last year, with Australia's top 5 banks paying almost as much as the rest of the ASX200 combined.

In allocating capital, banks use our deposits, our savings, as a source of funds for borrowers. This simple fact rightly brings with it important obligations to lend prudently and responsibly.

Much of the Royal Commission to date has focussed on how well banks are meeting this obligation. Without doubt, we have seen some compelling evidence of failures, some of which have already been acknowledged by banks and customer harm already remediated, and other evidence yet to be determined.

But there is more thinking to be done, more deliberation needed on how to best secure the right balance.

The Royal Commission is examining in forensic and unrelenting detail, not only misconduct, but instances where banks have failed to meet community expectations.

The community, rightly, expects banks to be careful and diligent in assessing a customer's suitability for credit – after all, they are lending our savings.

But the Australian community also expects that credit will not be unreasonably withheld, that credit decisions will be made quickly and that the process will not be unduly onerous.

Herein lies the challenge.

As customers increasingly choose digital channels, which they expect to be seamless, easy and fast, the temptation for Governments is to add complexity and weight to the assessment process to guard against failure.

At worst, this temptation can tighten access to credit and make it more expensive – this would be a poor outcome for the overwhelming number of customers for whom buying



a house is their best financial decision, regardless of the sacrifices it involves for most in the early years of owning their first home.

Similarly, tightening access to small amounts of credit can push more vulnerable customers out of the regulated banking sector into the far riskier world of pay day lenders and the like.

We will all look on with interest as the Royal Commission does its work and reaches its conclusions. As we do, we should hope that the more measured and sober environment of the judicial setting will produce a more reasoned and balanced outcome for customers and for the system than the overheated corridors of our current federal parliament.

By their nature, Royal Commissions are focussed on the past, they look at what has already happened and what harm it may have caused.

But I want to conclude my remarks today with a brief glance at the future and what it may have in store for Australian banking – and the effect that this may have on trust in Australian banks.

While the country has been enthralled by what is wrong with banks over the past few years, those same banks have invested \$1bn in a new payments platform, launched with little fanfare in February. Still in its infancy, and yet to be really felt by customers, the NPP is one of the most significant developments in Australian banking and finance in decades. An open platform, it provides a whole new set of poles and wires for nextgen banking.

When fully operational, the NPP will facilitate instant, real time transfers of funds between banks for the first time in Australian history. This will eliminate one of the customer points of irritation and distrust – customers ask “why are you holding on to my money, why can’t I just pay immediately”. But the NPP will make much, much more possible – services and opportunities that we cannot yet imagine, but we can be confident that they will continue to improve the customer experience.

At the same time as the NPP is being rolled out, the proposed Open Data regime will see customers take full ownership of their own financial data for the first time. Set to start in 2019, the open Data regime will enable consumers to easily transfer their financial transaction data to competitor banks and other finance companies for the first time. It sets the scene for a shift of power into the hands of consumers and huge leap in competition.

Again, important ingredients in the trust equation.

Couple these with Comprehensive Credit Reporting, starting later this year and banks will soon have a much clearer line of sight on a customer and their reliability. Comprehensive credit reporting will be a double-edged sword for customers. A good credit history is likely to facilitate a better deal for many customers. But it will give banks a fuller picture than they can get now of a customer’s full credit exposure, along with



payment history, and this will make credit harder for some to access credit. Nevertheless, this fuller picture will be an essential ingredient for banks to better and more easily meet their responsible lending requirements, which in turn, will help rebuild community trust.

These developments are all just the beginning. The growth of new and different financial products and services, some designed by banks, others designed by new players seeking to disrupt banks are all set to transform banking. Much of this transformation will see a further transfer of power into the hands of the consumer and that will be the most powerful trustbuilder of all.

Against all the odds, this is an exciting time for Australian banking. Exciting is not the word that would most readily come to mind for all those who are burning the midnight oil, sifting through millions of documents to comply with notices to produce for the Royal Commission, but transformations are always painful as the old gives way to the new. Above all this is a time of opportunity. An opportunity for a major reset, not only in how we do banking but how we think about it, its place in our lives, its role in our economy and, most of all, its trustworthiness.

I look forward to the next twelve months with enthusiasm, fascinated by what comes next and, with confidence that both Australian banks and the Australian community are well and truly up to the task.

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