



SPEECH

11 April 2018

SPEECH TO THOMSON REUTERS AUSTRALIAN REGULATORY SUMMIT

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****Check against delivery****

It's a pleasure to be here, today speaking to you all in your sixth year of the Thomson Reuters Regulatory Summit – but my first.

As many of you are personally experiencing every day, the banking sector is undergoing intense and relentless scrutiny which in turn is underpinning a fundamental re-set of the industry. This is being driven by three significant factors.

Firstly, major regulatory change.

Secondly, technology is driving this shift in powerful ways – like many other sectors, banking is experiencing technological disruption which presents both challenges and opportunities.

Some of this technological change intersects with the regulatory sphere.

A third driver is consumer driven change - right now, the world is living through the single biggest transfer of power from institutions to customers.

It is changing the nature of politics, community expectations, the operation of businesses and the way governments are approaching regulation.

Reflecting on these three drivers, we are experiencing at the moment what I call, a triple whammy.

At the very time the industry is working to embed the significant and wide reaching regulatory reform program, many other things are happening to it.

People in banks are working to implement the new Banking Executive Accountability Regime and that is something that goes across all parts of the organisation.

They are also working to have Comprehensive Credit Reporting ready to be operational on the 1st of July - among many other changes.

At the same time we are looking to shape the next wave of regulatory change –working to respond to the Productivity Competition Report on competition, the ACCC Report on mortgage pricing, on APRA’s recent paper on remuneration alongside the policy and regulatory issues arising from the Royal Commission.

So on the one hand we are working hard to embed new changes - on the other and we are trying to shape and inform and be part of developing the next wave of change - at the same time we are looking over the horizon, beyond the current frenzy of regulatory activity and trying to imagine the future of banking and the regulatory challenges that new time will require.

So whether it’s thinking about Open Data and how that might apply, not only in banks but how its application to banking might impact other parts of the economy that will soon be part of it.

But also the opportunities that the New Payments Platform presents and the entry of new, non-ADI players into the banking sector.

As I said it’s a triple whammy that requires our very best thinking and our most rigorous attention.

It’s also a once in a generation opportunity for a major re-set of the banking industry.



Balancing these major shifts is particularly exacerbated because of the size and scale of the reform program.

A number of people in this room are part of these changes and I thought I would just reflect back to you if you are feeling exhausted or starting to feel some change fatigue it is not surprising.

Since the GFC, and that's just on a decade, there have been 57 Federal inquiries, reviews or investigations into Australia's banking system.

They have resulted in 420 recommendations, many of which have either been implemented or are in the process of being implemented.

That's without any change that might be wrought by the Royal Commission.

Some of these changes need to be fully implemented and embedded before we can truly understand what their impact is and before we can even think about what is the best way to improve on that last improvement.

As I said, there is so much more on the way.

By way of example, I want to look at three major reforms that the banking sector is now adapting to.

Banks are working to embed the new Banking Executive Accountability Regime.

Legislation recently passed the Parliament giving new executive conduct powers to APRA where individuals will be removed or disqualified in the event community expectations are not met.

There can also be financial consequences both personally and for an institution and it reaches to Board level and involves non-executive directors of Boards as accountable persons.



BEAR, as it is affectionately known, will start on 1 July for our major banks. Small and Medium ADIs will have a further 12 month extension to implement and are required to be part of the regime from 1 July 2019.

The equivalent regime in the UK from where Bear originated, was implemented over a three year period and the Prudential Regulation Authority (PRA) in the UK is still consulting on the design of their regime.

So the complexity of the task at hand for regulators who are being provided with entirely new and significant powers - and the banking sector should not be underestimated.

The BEAR regime focuses on individual accountability within banking institutions and has the potential if done right, to powerfully shift culture.

The initiative goes directly to conduct as well as to culture - both of which are at the heart of the Royal Commission's work. The effect of BEAR is yet to be felt, indeed the definition is yet to be tested and we will still be rolling it out as the Royal Commission turns its mind to issues like conduct, culture and executive accountability.

We know for example that the definition in the BEAR legislation of conduct that impacts the prudential standing or prudential reputation of an entity is yet to really be defined and I suspect will need to be fully tested before it has final meaning within organisations.

Yet we could face additional proposals in this area before BEAR is fully operational.

Comprehensive Credit Reporting is a second example and requires our major banks to fully participate in the new credit reporting system, also by 1 July this year. CCR as its become known, will have an impact on credit assessments and lending practice, all of which are the subject of Royal Commission consideration and we could see further proposals out of that process that may or may not impact on how CCR is most effectively rolled out in the interests of customers.



As if there wasn't enough regulation happening in this sector the banks two years ago embarked on their own program of self regulation - because there wasn't enough going on!

As many of you will know, in 2016, we embarked on probably the most comprehensive and substantial program of self-regulatory initiatives, possibly in the history of banking, in Australia.

While much has been done in that self regulatory space, this was a very big package and a very short time frame.

Chief among those new initiatives is the new Banking Code of Practice. Banks embarked on this precisely as they knew they had a problem and they needed to be part of the solution.

They don't control government legislation, they can be consulted on it and try and shape it but what they can control is the self-regulatory environment in which they operate.

The proposed new Banking Code of Practice marks a significant shift in culture and service for bank customers. There will be major changes to every day banking including changes to small business lending, new deferral periods for the sale of add-on insurance and changes to credit card lending – again, all the subject of Royal Commission terms of reference.

Continuing in the self regulatory vein, banks fully adopted the recommendations of the Sedgewick report.

It had a number of recommendations all which have been adopted by banks on remuneration including setting new principles, eliminating direct sales targets and replacing them with a balanced scorecard model & changing the way mortgage brokers are paid.

As these are being rolled out, APRA has issued a new paper on remuneration and its intersection with Risk and risk management and the Royal

Commission has undertaken some forensic consideration of these issues and invited public comment on various policy proposals.

On the regulatory front we are living through constant rolling thunder of regulatory reform with a new wave hitting before the ink is dry on the last wave.

That provides challenges, also plenty of opportunities but again will require rigorous attention to detail.

Some of our best minds are thinking and working collaboratively not only across the sector but working with government agencies like Treasury and other regulatory authorities to maximise the beneficial impact of change and minimise any unintended consequences.

Thinking about the next wave of economic opportunity – its going to be in the digital space and open data space.

When I think about how that might play out in the banking context, I reflect on Australia's transformational economic reforms from the 1980s and 1990s – these reforms were driven with the aim of re-shaping our nation to create a more productive workforce and better quality of life for all of us.

We are now looking at that next opportunity to do the same again.

The digital economy –

While experiencing a period of intense scrutiny and reform, the digital economy and all that it offers demands that banks stay focused on developing a policy and regulatory environment to achieve the goal we are setting out to achieve – which is empowering consumers to utilise the technological advancements available to them so they can get the best product or service for them and their families.

Underpinning all of this reform feels to me when I look back on previous periods of significant regulatory change and upheaval - I the key difference

we are dealing with today is a change in the policy development process itself.

Gone is what I think was a very linear process of careful, often slow and iterative consideration and development, where one logical step followed another.

Where a problem was first identified, a formula to consider that problem is developed, then a consultation process to seek feedback. Then potentially legislation drafted.

Governments would often develop a white paper which was the statement of their intention, then there was a green paper for people to provide input too prior to any legislative consideration.

We are now living in a time of what I call Instachange.

When a problem is identified, the community demands and expects government will instantly be able to respond to the problem.

The community increasingly expects instant response, instant policy, instant legislative change and instant compliance – and many different reforms coupled on top of one another before we understand their impact or implementation challenges.

I don't have any confidence we are going back to a slow, careful liner process of policy development. I think the world has comprehensively changed and regulators and government and people like yourselves that have interest in regulation and an opportunity to shape it are going to have to change the way we think and the way we do things.

Some examples of the speed at which things are happening in the last twelve months include major banks being given 36 hours to provide input to the Major Bank Levy announced in last year's Federal budget.

Or the three week consultation period for the Crisis Resolution Powers and Other Measures Bill.

For those of you who don't know, that bill actually determines exactly what powers the RBA and other regulators will have in the event of a total collapse of the banking system – so critically important to get it right.

Or the seven day opportunity to comment on the Banking Executive Accountability Regime Exposure Draft Bill and the five month timeframe for major banks to comply with it.

This kind of approach carries significant risk.

We can seize the benefits of the digital economy by making sure people are fully aware of what the benefits of it are - and take them on the journey with us.

Although as I said I am not hopeful we will return to a careful, rigorous linear style of policy development - I think the challenge is for the legal fraternity and regulators to work out how we can make sure we don't see unintended consequences from an environment where everything is happening at once.

In that context, I want to focus on Open Data – the opportunities and the appropriate regulatory environment we need to create - to realise those benefits.

Open Data, if delivered properly, can deliver enormous empowerment to customers.

It puts people in a position of power owning their own data in a world where data is going to be the new oil.

Giving people that power puts them in the driving seat in a way they haven't been before.

We are expecting to hear from the Government very soon about their intentions for this regime. Banks look forward to working in partnership with them to take the time to get this reform implanted in the sector properly.

If we don't design and embed an appropriate regulatory environment for Open Data, we will have more problems than we can imagine like we have seen with the recent Facebook data breach in the last two weeks.

Not only do people have very high expectations for security of their own data and that it will be protected and kept safe wherever possible. Community trust will be further eroded at a time when we should be working together to do everything we can to improve it if we don't get that right.

So how do we do that.

It's important to have adequate time for implementation. Not only is this a big shift for Australia's banks and finance sector - the banking system is the vanguard of this - and the government has determined that banks will lead the charge and be the first sector of the economy to drive this space.

Then it will be expanded across the whole economy – telcos, utilities and a number of other organisations will in time be exposed to the regulatory framework that will be developed for the banking system.

Being the first industry is not going to be without its challenges and when you have something this significant, we expect that there will be some teething problems.

Which is why the regulator devising the economy wide open data rules requires very strong collaboration with the Data Standards Board and the other stakeholders involved.

What we need to know is that at a customer's direction, data holders should be obliged to share all transaction data in a form that facilitates its transfer and use but does that in a way where all of the appropriate and necessary consumer safeguards.



We think Australian customers would benefit from a phased implementation so the greatest number of customers can benefit from the regime as soon as possible.

Noting the importance of items like credit cards to people, the regime could start by rolling them out first followed by other projects in subsequent stages with timeframes set, based on the experience of the first wave so we have the best chance of achieving the original intention – to benefit customers.

One of the important features of Open Data from a banks perspective is that all people on the transfer platform should be required to share the data that they hold.

Banks should be required to allow customers to transfer all of their data if they want to, to third party competitors and those third party competitors should be subject to reciprocal obligations in relation to their own consumers.

Similarly we must ensure that if a customer asks a bank to transfer their data to a third party provider maybe not a bank – maybe a different kind of provider, banks want to have certainty that firstly there has been some accreditation of that third party provider and a resolution on where the liability will lie if the bank transfers the data to another entity and that entity is found to have breached the customer's data. Where does the liability rest? And if it rests with the third party which is where the banks say it should, banks should not be liable.

They want to have confidence that a third party player who might be a relatively newcomer to the sector has the capability to meet their liabilities in relation to customer data breaches.

So these are actually quite complex questions to get right and it is important for the protection of customers that we think about them and get them right which is why we are suggesting a phased implementation approach.



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In summary if it feels like you are walking a tightrope at the moment working to embed changes in your own organisation as well as embrace the change we want to drive for customers - reflecting on the combined tension of all these drivers of change may explain the feeling of regulatory fatigue.

I think we should consider this an exciting time of opportunity for the industry, while dealing with the Royal Commission - and no doubt there will be more regulatory challenges ahead for everybody.

Thank you for the opportunity to be here today and I am happy to answer any questions.