Australian Banking Association

**Anna Bligh Speech to the Financial Times Live Conference**

**Tuesday 9 April 2019, Sydney**

## Enhancing Corporate Integrity in Banking

Good evening and thank you for inviting me to speak to you this evening.

The Royal Commission has had a profound and enduring effect on the structure, culture and operation of banking in this country, forever searing in their minds the high cost of misconduct to reputation, brand and shareholder value.

### APRA's report - how did we end up here?

The Australian Prudential Regulatory Authority's 2018 report into the Commonwealth Bank tells part of the story.

It made a large number of findings and recommendations with an overarching conclusion that – ***CBA's continued financial success dulled the senses of the institution***.

First and foremost – a widespread sense of complacency had run through the organisation from the top to the bottom.

Secondly – they were reactive – rather than proactive.

Operational risks received attention only once problems and reputational consequences had become apparent.

Further, the CBA culture was characterised as legalistic and overly technical - one that asked the question "can we?"  not "should we?".

The APRA report has made a series of specific recommendations to CBA to strengthen governance, accountability and culture.

But just as important as this review has been to Commbank - it has become a blueprint across the banking sector and beyond for organisations to examine their own cultures, their own accountability processes and what they can learn from this.

To quote Chairman of the ASX Corporate Governance Council, Elizabeth Johnstone who said, **"There is not a CEO in this country that is not now asking themselves, *"Should we do this? Not, can we do this."*** It has become a catch phrase for getting it right.

Much of this was reinforced by the investigations of the Royal Commission which repeatedly returned to themes of culture, compliance, conduct and consequences.

So, what is to be done?

A strong, trusted banking and finance sector is critical to the health of the Australian economy and the well-being of every Australian. With so much at stake, it is imperative that Government and the industry can work in lock step to embed the reforms needed to earn back the trust while maintaining strength and stability.

The combination of Government initiatives, industry led reforms and Royal Commission together address many of the priority areas.

The reforms are designed to:

- drive more accountability
- create higher standards
- transform remuneration and incentives

- build a customer focused banking sector
- encourage a speak up culture
- Strengthen the regulatory landscape

But ultimately what we are talking about is culture which is created by all of you as the people who work in these organisations. The behaviour you and your colleagues accept. The malpractice you and colleagues overlook or ignore.

**Driving More Accountability - BEAR**

The BEAR regime is about establishing accountability in banks and if done right – has the potential to powerfully shift culture.

As many of you know - the BEAR legislation gives new executive conduct powers to APRA where individuals can be removed or disqualified from the industry in the event community expectations are not met.

There are three basic obligations under BEAR

1.act with honesty and integrity

2. Act with due skill, care and diligence

3. Deal with APRA in an open, constructive and cooperative way

We know clear accountability and clear consequences for behaviour can change culture.
BEAR is still in its infancy. Still being rolled out in non-major banks and Royal Commission recommended it extend across the whole finance sector.

**Crating Higher Standards – A New Banking Code of Practice**

In addition to accountability - we are driving a higher standard of service for bank customers.

Due to come into effect on 1 July this year and approved by ASIC last year – the new Banking Code has been entirely re-written to guarantee new enforceable rights and entitlements for bank customers.

It represents a stronger commitment to ethical behaviour, responsible lending, greater financial protection and increased transparency.

There will be major changes to every day banking that customers will notice - small business contracts written in plain English with significantly reduced non-monetary default clauses, the ability for people to cancel credit cards online and no more unsolicited offers for credit card increase limits, among others.

Australia's banks will also have a more proactive approach to identifying customers who might be experiencing financial difficulty and an obligation to take extra care in serving these customers.

The Royal Commission Final Report has recommended further changes to the Code. These have been accepted and are being drafted now with a sense of urgency to:

- Work with customers in remote areas to identify ways for them to receive banking services
- Ban informal overdrafts on basic bank accounts
- Abolish dishonour fees on basic bank accounts
- End charging default interest for customers in drought affected areas

The new Banking Code is an opportunity for banks to re-set their relationships with their customers by being more transparent, more accessible and better at dealing with customers experiencing difficult times.

A customer can become vulnerable at any time in their lives through a life changing event such as death, divorce or illness.

The way organisations look after their vulnerable customers defines them and defines the kind of culture they embody.

**Transforming Remuneration and Incentives – the Sedgwick Report**

We all know that the way people are incentivised impacts their behaviour – it is what incentives are designed to do.

The Royal Commission highlighted the distorting role that incentives have played in driving poor conduct and poor culture.

Banks are doing something about it.

In April 2017, the industry announced an overhaul to the way bank staff are paid, based on a comprehensive review by former Commonwealth Public Service Commissioner, Stephen Sedgwick.

- Abolishing direct sales targets
- Basing incentives on a broad range of measures, including customer metrics - with no more than 30% financial measures.

The reviewer understood that this represents a very significant shift in culture and would take some years to fully embed. A recent progress report has found that banks are on track to implement the report well in advance of the 2020 deadline. It also shows:

- Banks have significantly reduced the use of bonuses based on financial incentives for front line staff
- Bonuses for bank tellers, typically 10% of fixed salary, are now generally based on broader customer service measures, with ‘sales based’ measures greatly reduced
- Salaries for other bank staff such as ‘in house’ mortgage brokers, are now greatly weighted towards fixed pay, rather than variable bonuses
- Banks are retraining front line staff to encourage a ‘customer first’ approach, rather than a ‘sales first’ mindset

Commissioner Hayne endorsed this work in his final report – making the full implementation of this report the only recommendation on remuneration for bank staff.

**Building a Customer Focussed Banking Sector - Customer Advocates**

An important change to banking culture is the establishment of a new role - that of Customer Advocates.

The role of the Customer Advocate is to create a customer lens across the business from product design to staff training to resolving complaints.

Critically - customer advocates have escalation power to the CEO or even the Board if they think the bank is not properly dealing with an issue.

Banks are leading the way by creating these roles whose purpose is to disrupt ‘group think’, complacency and a business as usual mentality.

The Customer Advocate is a constant reminder inside the bank of ‘should we, not can we.’

## Encouraging a Speak Up Culture - Whistleblower Protections

Alongside industry driven reforms to protect whistle blowers, the government has proceeded with a range of legislative reforms that will have a long-lasting impact on the way banks do business.

Late last year, legislation passed the Parliament providing a strengthened Whistleblower protection regime covering the corporate, financial and credit sectors.

Public and large propriety companies must have a compliant Whistleblower regime in place by 1 July 2019.

In practice - this means three things:

- Making it easier for staff to report something they think is wrong by authorising a broader range of people as 'eligible recipients'
- Allowing anonymous disclosures so people know their identity will be protected when they have called out poor behaviour
- Expanding the protections and remedies for victimised whistleblowers

Inside banks - this regime will contribute to creating a 'speak out culture' and one where people are supported and protected when they do.

## Strengthening the Regulatory Landscape

### ASIC - new penalties

The Royal Commission identified the need for significantly stronger consequences for misconduct and behaviour that fails to meet community expectations.

As a result, Banks will now also face much tougher penalties. Late last year civil penalties were increased by more than tenfold for corporations and fivefold for individuals

Jail time for the most serious criminal offences were tripled from five to fifteen years.

A single civil penalty breach which would have attracted a maximum $1 million fine could now attract a $525 million fine.

Stronger penalties serve two main purposes – acting as a deterrent for people doing the wrong and restoring community trust in the regulatory system.

## ASIC Product Intervention Powers

Just last week legislation passed the Parliament giving ASIC new **Product Intervention Powers** meaning they can ban or restrict the distribution of a financial product where a risk to a customer is identified.

The legislation also includes **Design and Distribution Obligations** requiring banks to make a target market determination for financial products ensuring they are marketed to an appropriate audience.

Over the next two years banks will be working to embed the DDO regime in their businesses with a customer focus squarely in mind.

Banks will have to demonstrate they have thought long and hard about a product and who it should be sold to – solidifying a "should we" not "can we" approach to the design and sales of financial products.

**Consumer Data Right**

I now want to finish with a brief comment on something not canvassed in the royal Commission - the role of digitisation and data in driving better cultures in banks.

Data is the currency of the new economy.

Legislation is currently before the Parliament to introduce a Consumer Data Right, empowering customers to access and share their own data in a way they haven't been able to before and instruct it to be shared with third parties.

This will see a further shift of power from institutions to individuals.

It will also make it easier to compare products and services.

Banks are the guinea pigs and will be the first industry to be compliant – closely followed by energy and telecommunications.

The consumer data right will change the way Australian customers interact with their service providers putting them in the driver's seat in a way they haven't been before.

Similarly, advanced data analytics, AI and meta data capabilities are providing banks with more information about their customers than ever before. This emerging capability can drive a a range of new services and behaviours:

- the ability to identify a customer in trouble long before the situation spirals into serious debt,
- the ability to identify and stop scams,
- the ability to use nudge messages to encourage better spending and saving behaviour or

- the ability to precisely verify borrowing capacity.

Used well, data can drive powerful new relationships between banks and customers.

## Conclusion

I hope what you will take away from what I have said to you is that there are fundamental, far reaching changes happening right now, right across the banking sector.

It would be easy to be pessimistic about what has happened in banks in recent times. But I sit around a table with bank CEOS who know they must do better and are determined to lead their organisations to a more customer focused place, where compliance and ethical thinking is the norm.

This period in the otherwise proud history of Australian banks is an opportunity to set a new standard, to reset the relationship with the Australian public and to rebuild trust and reputation.

The challenge demands strong, ethical and courageous leadership. I believe the industry is up to the task.

I am happy to take any questions

Thank you