



Australian Banking  
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## **AFR Banking and Wealth Summit**

**Wednesday March 27**

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Good morning! Thankyou once again to Michael Stutchbury and the Australian Financial Review for the invitation to be here.

Two years ago, 3 days into the job of CEO of the Australian Banking Association, I spoke at this forum about trust and the findings of the Edelman Trust Barometer.

The Global theme, very much emulated in Australia, was that 2017 saw an implosion of trust.

At the time I said that an implosion of trust would lead to an explosion of scrutiny.

Well, over the last 12 months through a Royal Commission we've had scrutiny in spades.

This is not to mention scores of parliamentary and regulatory inquiries, many still ongoing.

Now you might expect me to complain about this, but from where I sit this may be one of the best opportunities the industry has had in decades.

Australia's banking industry is no stranger to public examination.

The past forty years have seen four major examinations of the sector. Each of these has had a profound and enduring effect on the structure and operation of banking in this country.



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The Campbell Inquiry in 1981 recommended the floating of the Australian dollar and deregulation of the financial system. A seismic shift that propelled Australia into global financial markets.

Sixteen years later in 1997, the Wallis Inquiry recommended the twin peaks model of financial sector regulation. APRA and ASIC were born and jurisdictions around the world copied the Australian model.

Seventeen years later, David Murray headed the Financial Services Inquiry.

The result was a recognition that the capital strength of the country's banks was behind that of their international counterparts. It outlined a blueprint to build an Australian banking system that is "Unquestionably Strong".

The vision was for an 'unquestionably strong' banking system able to withstand external shocks and protect the deposits of customers – without question and without recourse to the taxpayers.

Just four years after David Murray issued his Report, the Hayne Royal Commission has probed into misconduct and the treatment of customers in a searing examination of Australia's banks and financial institutions.

The Final Report has presented a challenge to Australia's banks.

This time the challenge is to become "Unquestionably Good."

'Unquestionably good' means going above and beyond the expectations of customers with products, services and, importantly, behavior.

To reset the relationship with not only their own customers, but with the public at large.

To set a new global benchmark for customer service and ethical banking.



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To build a system that puts ethics and fairness beyond question.

Does this seem far-fetched?

Are you feeling cynical and doubtful that banks can change?

Remember that in the 1980's, not that long ago, we had a banking system in which:

- interest rates were controlled,
- foreign transactions had to be individually approved
- the quantity of loans available was subject to government direction – leaving credit-worthy borrowers unable to access credit.
- Australia had virtually no foreign banks
- Not a single Australian bank in the global rankings

In global markets, we were minnows.

But we focussed on continual reform, on commercial strength and capability and we now see three Australian banks in the world's best 50 and four Australian banks among the 50 safest banks in the world.

We are world leaders in payments technology and digital banking.

Globally, we now punch way above our weight.



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This seemed impossible to imagine in the 1980s, but we made it happen. Governments, banks, regulators, analysts, commentators, researchers and above all, customers.

Together, we transformed the landscape and built an entirely changed system.

And, as a country, we can do it again.

So, let's talk about the Hayne Royal Commission.

Twelve months of intense investigation and excoriating cross examination. 68 days of hearings, 134 witnesses, 10,323 submissions, literally millions of documents and an Interim Report with 126 questions.

A relentless focus on misconduct and unacceptable behaviour.

Revelations that shocked the Australian people.

And a further, massive erosion of trust and reputation.

In the end, a comprehensive examination of conduct, compliance, culture and consequences and a Final Report with 76 recommendations.

On balance, the recommendations provide a roadmap for sensible reform. 14 changes to banking legislation, 17 changes to Regulator powers and practice, 7 changes to the new Banking Code of Practice.

These changes are necessary. Industry and Government must apply themselves to their implementation with urgency and resolve.



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The industry is committed to commencing the new Banking Code of Practice on 1 July 2019 as planned. This Code provides a raft of new rights and entitlements to customers and should not be delayed.

We are working with ASIC and the ACCC and expect to have all of the agreed Royal Commission changes approved and included in the new Code by this date. However, some clauses may have deferred operational dates to enable system changes to be made if required.

Without doubt, a number of recommended legislative reforms, such as changes to mortgage broker remuneration, enforceability of Codes and extending BEAR to product life cycle will require extensive consultation and consideration.

Equally, there are many that can and should be implemented as quickly possible. An end to grandfathered commissions in financial advice, a nationally consistent farm debt mediation scheme and changes to ongoing advice fees, among others, should all happen this year.

Australians should expect that whoever wins the next federal election will have a banking reform bill, with these and other reforms, in the Parliament within their first 100 days of being sworn in. I'd call on both sides to commit to taking this action.

This will make for a busy second half in 2019, but the circumstances warrant action and urgency.

But the Hayne recommendations are not an end in themselves. They are just the end of the beginning of what needs to be done.

To fully realise the opportunity to lead the world in customer service, in relationships and reputation the implementation of his recommendations is necessary, but it is not sufficient.

To reach a higher goal, it will be necessary to go above and beyond.



For each bank to develop their own strategies and for the industry to develop sector wide reforms that will change the landscape.

How can I believe this is possible?

Because it is already happening and reaping results.

At an Industry level:

- In 2016, the industry knew that it was in trouble, that it was getting things wrong. The Government was starting to look at the regulatory landscape, the Opposition was calling for a Royal Commission. The Industry had a long, hard look at itself and resolved to take action. The result - the Better Banking Program, laid the foundations for significant reform:
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  - A Review of remuneration for frontline staff - this Review, done by Stephen Sedgwick, is the basis of the Royal Commission's recipe to remedy remuneration issues. In Recommendation 5.5, Hayne tells us - implement Sedgwick, to the letter and to the spirit.
  - A comprehensive rewrite of the Banking Code, from the ground up - done and ready to go from 1 July this year. In fact, Hayne had such confidence in the Code that he saw it as the appropriate vehicle for reforms to banking and recommended measures which would strengthen the protections it offers.
  - New customer initiatives - a new senior position of Customer Advocate in every bank and new whistleblowing protections to encourage a speak-up culture

All done and being implemented. It's the largest suite of industry-led reforms in living memory.



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And the ABA is now developing the next round of industry led reforms. Continuous industry improvement is now our BAU.

At a bank level:

1. Big structural changes:

- We've seen businesses sold, businesses demerged with potentially more to come. Without a single recommendation about vertical integration, banks are rethinking their businesses and reverting to their core service, to what they know best.

2. Big Leadership changes over the last three years:

- 7 new CEOs
- 4 new board chairs
- 24 new board members
- 31 new Senior Executives

3. Big cultural changes:

Led by internal and external forces.

Internally, there is no doubt that the thousands of people who were involved in preparing documents, overhauling systems and other parts of the Royal Commission have this memory seared into their DNA and it changing their thinking, their behaviour and the conversations in their workplace.



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Externally, APRA, ASIC & AFCA are all now refocusing on their own core missions, ensuring a highly active regulatory environment which will no doubt pursue legal action more often. This, in itself, brings a pressure for better decisions at every juncture – when products are designed, when services are provided, when business models are accepted, when complaints are being assessed.

So, there has been substantial and important action in the past 3 years, with more activity this year to implement Hayne, but what's next?

The industry knows that it must fundamentally change the way it thinks about its purpose, its values and its customers and that shift is underway.

Banks are re-designing systems so they no longer wait for a customer to get into trouble. They are accepting responsibility to reach out to prevent customer issues before they arise.

This will certainly require a profound cultural shift, a redesign of existing systems and an overhaul of many policies.

But it's why the major banks have funded a new not-for-profit debt repayment service, to quickly and easily help customers manage their debt.

Financial counselling is a major part of this solution.

Financial counsellors get people back on track when they're experiencing some of the most difficult moments in their lives and provide a valuable education service to people with lower levels of financial literacy and capability.

The industry is right now working with government to increase the availability of financial counselling services by providing increased funding for the sector

Banks are committed to improving customers access to this vital service and to fund their share of that expansion.



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And we encourage other sectors to partner with us in this endeavor so that consumers who need access to this essential service can do so.

## **Conclusion**

The challenge to become “Unquestionably Strong” has involved the gradual adoption of uniform standards. The same capital buffers applied to banks of similar size and structure. It is not about individual innovation. It is not about banks competing to hold the biggest capital reserves. It is about establishing and enforcing a uniform definition of strong and applying it equally.

The world of “Unquestionably Good” is not about uniformity. It is about setting basic, minimum industry standards and competing above that standard.

And you can see that happening already:

Suncorp has increased the delegations available to customer relations staff to immediately solve a customer problem or complaint. Fixing problems faster and more fairly.

NAB announced last week that they will extend covenant light contracts to small businesses with up to \$5m of credit exposure - \$2m above the industry standard threshold.

Commbank is using technology to help customers support good financial habits. Using Smart Alerts on their App more than \$2m customers have avoided late payment fees thanks to real time credit card repayment alerts.

They are also developing and using new data analytics to identify and protect vulnerable customers. For example, they have analysed customer accounts & established that the frequency of income payments has a direct correlation to financial well-being. Customers paid weekly outperform those paid fortnightly by managing cash in and cash out more tightly and having better average balances at the end of a 6 month period. This is a powerful insight that could make a huge difference.



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Westpac has partnered with Alzheimer's Australia to design Dementia Friendly banking services to help their customers with dementia remain financially independent as long as possible.

And several banks are placing controls on the use of credit cards for online gambling, in some cases giving customers the ability to limit their own spending, in others, placing limits on their customers. ANZ for example have introduced an 85% cap on how much credit can be drawn down on online gaming platforms.

There are many more examples, and there is much more to be done.

I raise these examples here to drive hope and confidence.

Gloom and cynicism would be a normal human response to the circumstances of the past year, but I've never known any significant reform or transformation to succeed without optimism and a relentless belief in what's possible.

I expect more bank led change ahead. I also expect to see cross-fertilisation as banks look across the fence, see good ideas and adopt them as their own.

Like its predecessors, the Hayne Report, will have a profound effect on Australian banking. It will reshape the industry for decades to come.

If the lasting legacy of the Hayne Royal Commission is that Australia's banks and financial institutions compete on the best ways to treat customers, the best ways to keep them financially secure and the best products and services to secure their financial well-being, then Australia can redefine "Unquestionably Good" in banking and become an example to the world.