

**Opening Statement by Westpac CEO Brian Hartzler**

**House of Representatives Standing Committee on Economics**

**11 October 2017**

***CHECK AGAINST DELIVERY***

Thank you Mr Chairman. With me today is Peter King, Westpac's Chief Financial Officer.

Since we last met, Westpac celebrated its 200<sup>th</sup> anniversary as Australia's first bank and oldest company. This milestone has led us to reflect on what it takes for companies to survive for so long. In my view, there are four factors: a dedication to building long term relationships, a willingness to adapt to changes in the economy and society, a commitment to strong risk management, and a positive, service-oriented culture where the best bankers can thrive.

The key to long term relationships is to put our customers' interests first as we design our products and services, and make decisions about pricing and other policies.

That's why we are actively reviewing all of our products, processes, and policies to make sure that they meet today's standards.

Internally we call this "Get it Right—Put it Right". If we find products and services that don't meet current expectations, we change them. And if in these reviews we find there has been an unacceptable impact on customers, then we "Put it Right". This work has led to a number of changes in recent months.

We've launched our new basic credit card, Westpac Lite, with an interest rate of 9.9%.

We're simplifying fees on personal transaction accounts which will benefit over 1.3 million customers.

And we've improved disclosures for pre-existing conditions on life insurance.

This willingness to adapt has been particularly important given the impact of new technology and the large volume of new regulations.

For example, later this year Westpac will launch our new small business finance agreement. This will be a shorter, plain-English document which business customers can sign electronically—saving them time and getting them their funds faster.

We also acknowledge the issues raised by this Committee around accountability. That's why we support the Government's new Banking Executive Accountability Regime. Implemented well, it will clarify accountabilities in what are relatively complex and matrixed organisations. While the legislation has not yet passed, Westpac has begun implementing it now. We are reviewing our incentive systems to ensure they align with the BEAR rules. I should note however that we are conscious that the BEAR imposes severe penalties where things go wrong, and are keen to work with Government and the regulators to avoid unintended consequences.

The principles driving the BEAR reinforce the third lesson of our history, around the commitment to strong risk management.

Working with our regulators we have recently introduced a number of measures to better manage credit, funding, and liquidity risks, and APRA has set higher capital requirements for banks to be seen as 'unquestionably strong'. More recently, APRA has intervened to limit the growth in investor property and interest only mortgage lending.

The combination of these changes has meant that a key driver of our pricing decisions in the last six months has been to meet APRA's Balance Sheet requirements, rather than to respond to changes in cost of funds or market share.

As an example, we have increased pricing on interest-only mortgages, while at the same time offering lower rates for principal-and-interest mortgages. This encourages borrowers to move from interest-only to principal-and-interest payments, at a time when interest rates are at 50-year lows. And in recent months we have seen high volumes of customers making the switch.

The final and most important area of focus for us is culture—embedding a strong service ethos and behaving in ways that earn and retain trust.

As this Committee has recognised, remuneration and incentives are a critical part of culture.

Last year we removed all sales incentives for our tellers, and our personal bankers are now incentivised equally for sales and service.

We are well progressed on implementing all of the Sedgwick review recommendations. For example we have now removed 'accelerators' from banker scorecards.

And we are committed to making sure that people who work in the banking industry maintain the highest standards of professional conduct.

On the first of July the industry launched the *Conduct Background Check Protocol* to stop individuals who have engaged in serious misconduct from finding further employment in our industry.

At Westpac, all of our incentive schemes require staff to meet high standards for compliance and behaviour. And we can and do take action when people fall short.

Mr Chairman, we, like the other banks, have more work to do to restore trust. We also recognise that from time to time we will make commercial decisions that not everyone will like. However our commitment is that, where we get something wrong, we will put it right.

I hope that Committee members can see from the actions we have already taken that Westpac, and the banking industry at large, is changing and is committed to lifting our standards and running our business in the best long-term interests of our customers, our shareholders, and Australia.

Peter and I would be pleased to answer your questions.