

Opening Statement by Westpac CEO Brian Hartzler
House of Representatives Standing Committee on Economics
11 October 2018

****CHECK AGAINST DELIVERY****

Thank you Chairman. With me today is Peter King, our Chief Financial Officer.

2018 has been a year of unprecedented scrutiny for banks. Along with the Royal Commission, we have seen multiple legal actions by ASIC, AUSTRAC, and the ACCC; the Productivity Commission's review of competition; and the introduction of the BEAR regime by APRA.

The impact of these actions on banks is significant and ongoing. The issues they have raised are confronting, and on behalf of Westpac I would like to once again apologise unreservedly to any customer we have let down.

The Royal Commission has been a valuable and rigorous process, and the interim report has raised a number of important issues.

Before taking your questions, I would like to offer four brief observations on what we have learned and, importantly, what actions we are taking to restore community trust.

First, on **remuneration**. The industry needs to continue to improve remuneration practices in ways that incentivise good behaviour while minimising the risk of behaviour that is not in customers' interests.

These changes need to cover both the structure and transparency of incentive schemes and consider the role of third parties such as mortgage brokers, auto dealers, and financial advisors who deal with customers directly.

At Westpac we have continued to evolve the way we pay our employees. We've removed all product incentives for our branch staff and have fully implemented the Sedgwick recommendations for our people from the first of this month – two years ahead of schedule.

This means that 70% of front line incentives are now non-financial measures.

We were also the first institution to remove grandfathered commission payments attributable to BT products.

My second observation is on the **importance of good complaints handling**. Many of the case studies examined by the Commission could have been avoided if firms more effectively and rapidly responded to customer complaints and their root causes. This is particularly true when it concerns vulnerable customers, or where the consequence of a service failure is potentially severe for the customer.

That's why I am increasing the visibility of customer outcomes – and complaints in particular – at the highest levels of the organisation.

I have appointed a new group executive, reporting directly to me, who oversees complaints handling across the Group, and we are investing in people, policies, and technology to make sure we resolve complaints in a fair, consistent, and timely way.

My third observation relates to **financial advice**. The transition under FOFA from product commission payments to a fee-for-advice model should have been managed better. As an industry we did not implement sufficient record keeping and file oversight at an advisor level to monitor the added requirements of the best-interests obligation and ongoing advice arrangements.

We also know that we weren't quick enough to identify and fix the problems, and we accept the consequences of this delay. Last month we announced increased provisions for customer refunds, with interest, associated with certain advice fees charged by the Group's salaried financial planners.

We have also now implemented stronger controls to ensure that services are in fact delivered where advice fees are being charged. This is in addition to providing customers with annual fee disclosure statements and a bi-annual, opt-in process.

My fourth observation is on **culture**. New regulations and tougher sanctions alone are not going to solve the risk of poor conduct. And in this, we fully support Commissioner Hayne's observation that simplifying current regulations could assist in reducing the potential for poor customer outcomes.

All of us want a strong banking system that delivers good outcomes for customers and the economy as a whole. To achieve this, we need our bankers to exercise good judgment in a world that is often grey – where the most important question is what should we do, rather than what can we do.

At Westpac we recognise that building a strong service culture is essential to winning back trust – one where everyone in the bank feels safe to speak up, knows what is expected of them, and is supported to make the right decisions for our customers.

That's why over the last month the entire company – nearly 40,000 people – has 'downed tools' for half a day to review and recommit to our purpose, our values, our service standards, our code of conduct, and our expectations around ethical behaviour and treatment of our customers.

In making these four observations I recognise that there are other questions to address, and there will be further changes following the Royal Commission.

However, in striving to address the issues that have led to misconduct, it's important that policymakers remain live to the potential second-order effects of new legislation and regulation.

While overall economic growth remains sound, we are seeing increasing uncertainty, especially among the consumer and small business sectors. House prices are falling, income growth has been low, and consumer spending is likely to be affected by people's confidence in the value of their home. Therefore regulatory changes that impact how much individuals can borrow, the cost and availability of credit for business, or the availability and affordability of suitable financial advice should be considered carefully.

I'd like to conclude by assuring the Committee that the stories related to Westpac, unacceptable as they are, do not represent who we are.

Banking is fundamentally an annuity business: the value of a bank primarily relates to the size and sustainability of its customer franchise – in other words, the quality of its customer relationships, and the health of the Australian economy.

Which means that in the long run, there is no conflict between doing the right thing by our customers, by our community, and by our shareholders.

With that Peter and I are very happy to take your questions.