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Senate Economics Committee
Department of the Senate
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AUSTRALIA

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Submission to the Senate Economics References Committee: Inquiry into Consumer Protection in the Banking, Insurance and Financial Sector

The Westpac Group (**Westpac**) thanks the Senate Economics Committee (**Committee**) for the opportunity to participate in the inquiry into consumer protection in the banking, insurance and financial sector.

Westpac acknowledges that a banking licence is a privilege that comes with the responsibility of earning and maintaining the trust of our customers. We acknowledge that a trust gap between the community and industry has emerged and Westpac is committed to addressing this. An important step in this process will be reflecting on the adequacy of the current protections available to consumers in the banking, insurance and financial sector. Westpac is committed to work with the Committee as this significant review progresses.

Introduction

Westpac's history as Australia's first bank - and first company - is a long and proud one. Since 1817, Westpac has been committed to supporting our customers through the many and varied stages of life. Key to this commitment is our vision to be one of the world's great service companies, helping our customers, communities and people to prosper and grow.

Westpac is a large and complex business. As is the case with any large company, from time to time things can go wrong and mistakes can happen. In line with our vision of being one of the world's great service companies, our commitment to our customers is that we will fix things quickly when we get them wrong.

To proactively identify issues, Westpac has a consistent practice of reviewing our businesses and products as well as, importantly, paying close attention to customer feedback. We are proud that our focus on listening to our customers and responding to their feedback has to date delivered a 70 per cent reduction in customer complaints since 2012 and in our branch network, compliments from customers have generally been outnumbering complaints.

Just as we transform our business to respond to customer feedback, changing consumer needs and technological advances, so must the legal and regulatory framework evolve. Reflecting the strong community interest in conduct and culture in the banking industry, a number of Government and industry-led reviews of the financial services sector have recently been established to look at what reform may be needed and how best this can be implemented. Westpac has been an active participant in these reviews, including the Australian Bankers' Association's (**ABA**) Banking Reform Program announced in April 2016.

Given that these streams of work are reviewing and making recommendations to strengthen consumer protections, awareness of these activities will provide important context for the Committee as it commences its review. We provide this submission as an adjunct to the ABA's submission, which provides a detailed examination of these Government and industry reviews against the specific initiatives of the reform program.

Examples of customer harm identified through the review process

Westpac is keen to work with the Committee to ensure that any specific consumer concerns raised through this forum are appropriately investigated and addressed, to ensure any potential customer harm is addressed in a timely manner.

Where our customers experience loss, Westpac has rigorous processes to work out why the loss has occurred. If a Westpac product, process or service is at fault, we take immediate steps to resolve the issue. These steps involve confirming whether the issue is confined to that customer's unique circumstances, or whether it may affect a broader cohort that also require review to determine if remediation is necessary.

We respectfully submit to the Committee that any assessment of consumer loss should seek to ascertain the root cause, as loss in and of itself should not be seen as evidence of an error or flaw in the consumer protections framework. In making this assessment, it is further useful to reflect on the extent of financial decision making involved in banking and how individual decision making may impact customer outcomes.

Promoting trust and confidence in the industry and consumer protection

The ABA Banking Reform Package

On 21 April 2016, the ABA, with the backing of Australian banks, announced its Six Point Plan to ensure high standards of conduct are guaranteed across the industry.

The objective of the Six Point Plan is to lift standards and transparency and to bolster the existing strength of the regulatory framework. To achieve this, Westpac and others in industry have committed to the below six actions:

1. Reviewing product sales commissions;
2. Making it easier for customers when things go wrong;
3. Reaffirming our support for employees who 'blow the whistle' on inappropriate conduct;
4. Removing individuals from the industry for poor conduct;
5. Strengthening our commitment to customers in the Code of Banking Practice; and
6. Supporting ASIC as a strong regulator.

Westpac supports the Plan and is committed to delivering the initiatives it sets out. Many of the commitments reflect changes Westpac has already made, or has in train.

Westpac is pleased to provide the following information to the Committee regarding the key changes we have recently implemented:

- **Independent customer advocate**

In October 2016 Westpac appointed Adrian Ahern as the Westpac Group Customer Advocate. The Customer Advocate is a new position, which will provide an avenue of independent review for retail and small business customers outside of standard internal review processes. This position enhances Westpac's existing dispute resolution framework and provides an additional level of confidence for customers in ensuring our process is fair and transparent.

The Customer Advocate is empowered to review and make independent, binding decisions about individual retail or small business customer complaints where customers are not satisfied with the internal dispute resolution process. Importantly, the role of the Customer Advocate is to recommend, where necessary, changes to policies and procedures to ensure the best outcomes for customers.

- **Whistleblowing**

All organisations face the risk of things going wrong from time to time, or of unknowingly harbouring unlawful or unethical conduct. A culture of openness and accountability is essential in order to prevent such situations occurring and to address them when they do occur. To achieve this, Westpac promotes an environment where staff and contractors feel free to speak up if they become aware of, or suspect any, form of inappropriate conduct.

Key to this is our Whistleblower Protection Policy that details a pathway for escalating concerns, as well the protections available to staff, including against financial disadvantage. Westpac recently reviewed this policy to ensure alignment with the principles outlined in the ABA's Six Point Plan and our own best-practice initiatives. An outcome of this review was the development of an externally managed telephone hotline for whistleblowers to improve access for people connected to the Group, such as contractors and employees of service providers. This hotline is in addition to our existing reporting channels, including our anonymous online reporting functionality.

- **Remuneration**

The ABA has commissioned an independent review, led by Mr Stephen Sedgwick AO, to identify whether commissions, bonuses or other incentives in retail banking result in adverse consumer outcome. This review is scheduled to be completed by 31 March 2017.

Consistent with the objectives of the Sedgwick review, in October 2016 Westpac removed all product related incentives for referrals for the 2,000 tellers in the Westpac branch network with incentives now based entirely on customer feedback. This has recently been extended to include St. George, Bank of Melbourne and BankSA branches, meaning all tellers and Customer Service Officers across the Westpac Group will only be paid an incentive for providing great service.

Additionally, and in further demonstration of our commitment to delivering great service, in February 2017 we announced additional changes to our remuneration of personal bankers. Specifically, individual product-specific sales targets have been removed and performance goals have been simplified with remuneration for personal bankers based equally on customer service and financial metrics.

- **Regulatory engagement**

The ABA's Six Point Plan highlights industry's support of having a strong conduct regulator, ASIC. Westpac is supportive of the Government's announcement to implement an industry funding model for ASIC and has been engaged in initiatives to design and implement a 'user pays' funding model. Such a model will enhance the ability for ASIC to investigate matters brought to its attention.

To develop our relationship with our regulators, including ASIC, we are further participating in industry initiatives to enhance the current breach reporting framework. To ensure our engagements with the regulator are productive, we have updated our regulatory engagement policy to include clear guiding principles, which will build on existing productive relationships.

Other reviews from Government, industry and public sector

Westpac, along with others in industry, have participated in a number of reviews of the financial services sector over the past six months. These reviews have included the House of Representatives Standing Committee on Economics review of Australia's four major banks, the Carnell review of small-business banking, the Ramsay review of external dispute resolution schemes, the Productivity Commission inquiry into open data and the Parliamentary Joint Committee review of life insurance. These reviews are currently making recommendations that, when implemented, will have profound effect on the experience of consumers in this sector.

Noting the detailed review of many of these reviews in the ABA's submission, we provide the below additional information on the timing and next steps of specific reviews.

- **ASIC - design and distribution obligations and product intervention power**

In response to recommendations from the Financial System Inquiry (**FSI**), in December 2016 the Government published detail of their proposed reforms to the regulation of the design and distribution of financial products and additional intervention powers for ASIC.

The Government has requested feedback on these proposed reforms, due by mid-March 2017. Noting that this process is still ongoing, Westpac is supportive of the implementation of this important FSI recommendation.

- **Productivity Commission inquiry into data availability and use**

This review, commenced in April 2016, is examining the benefits and costs of making public and private datasets more available. An important part of this review is addressing the use of comprehensive credit reporting data and identifying ways consumers can use and benefit from access to data held by financial services providers. Accordingly, the recommendations of this review will advocate significant changes in how consumers interact with the banking and financial services sector, which should be considered when assessing the ongoing adequacy of consumer protection laws. The final report is scheduled to be delivered in March 2017.

- **House of Representatives Standing Committee on Economics – Review of Australia’s four major banks**

The House of Representatives Standing Committee on Economics conducted further public hearings with Australia’s four major banks, as well as the ABA, in March 2017 as part of its review of the performance of Australia’s banking and financial system. Westpac will continue to work cooperatively with this Committee as they progress their review and refine their recommendations for reform in this area.

For further Information in relation to any of the matters raised in this submission, please contact Brett Gale, Head of Government Affairs on (02) 02 8253 4159 or bgale@westpac.com.au.