
The Parliament of the Commonwealth of Australia

Review of the Four Major Banks (Fourth Report)

House of Representatives
Standing Committee on Economics

December 2018
Canberra

© Commonwealth of Australia 2018

ISBN 978-1-74366-947-1 (Printed version)

ISBN 978-1-74366-948-8 (HTML version)

This work is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Australia License.



The details of this licence are available on the Creative Commons website:
<http://creativecommons.org/licenses/by-nc-nd/3.0/au/>.



Chair's foreword

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has revealed shocking examples of behaviour by Australia's four major banks. The conduct has, in many cases, been contrary to law and has fallen well below community expectations.

We have heard that CBA sold junk credit insurance policies to 64,000 customers, charged fees to dead clients, charged double the rate of interest to thousands of its business customers, and was the worst offender for charging customers fees for financial advice they never received.

It was revealed that Westpac has been the most resistant of the four major banks to the supervision of the banking regulator, the Australian Securities and Investments Commission (ASIC). ASIC told Westpac that its loan controls, which should ensure people can only borrow what they have the capacity to repay, were inadequate. Westpac ignored ASIC and continued to offer credit card limit increases to people without verifying their incomes. The issue affected more than a million customers.

ANZ has also come under fire for weak loan controls, particularly in relation to loans submitted by brokers and through its car finance business. We heard that ANZ inappropriately sold loans to more than 300,000 customers, and then repeatedly ignored ASIC's requests to compensate those people.

Some of the most appalling cases of misconduct were revealed during the Royal Commission's scrutiny of NAB's Introducer Program. NAB bankers accepted loan bribes, forged customers' signatures and manipulated incentive programs to generate bonus payments. NAB has been slow to compensate the victims.

In October 2018 the CEOs of Australia's four major banks appeared before the committee for the fourth round of inquiry hearings, which were scheduled shortly after the release of Commissioner Hayne's Interim Report.

Since the committee began its inquiry into the four major banks in October 2016, the Government has undertaken major reforms to the banking and financial sector. These reforms include establishing a one-stop shop for external dispute resolution, the Australian Financial Complaints Authority, and a Banking Executive Accountability Regime, which will impose higher standards of behaviour on senior executives.

The Government has also taken action to improve competition in the banking sector, including reducing barriers to entry for new financial institutions, and establishing a comprehensive credit reporting system. The Government is now awaiting the findings of the final report of the Royal Commission, due by 1 February 2019, which will chart a course for further reform of the banking and financial services sector.

Since the Royal Commission was announced, the banks have increased their focus on remediation and complaints handling, sacked staff and replaced executives. They have moved to break up elements of their vertically integrated business models, including selling off whole divisions that have been particular problem areas, such as wealth management.

Each of the major bank CEOs have made public apologies for the mistreatment of their customers and the policies and programs that caused financial hardship and distress. They have committed to do better, to provide remediation more quickly and to appropriately deal with complaints. However, these apologies will be meaningless unless they are backed up by lasting and real reform.

The banking regulators have been criticised for being too timid. Australians expect the big banks to fear their regulators. ASIC, in particular, needs to be tougher and has relied too much on enforceable undertakings rather than seeking penalties in the courts. This has led to the perception in the community that the banks have been let off 'scot-free', despite the injustices and financial losses suffered by so many of their customers.

The committee notes that there is a new Chair and Deputy Chair of Enforcement of ASIC who are committed to taking a stronger stance on enforcement, supported by a range of tougher penalties recently introduced by the government.

The messages for the four major banks should already be clear. The pursuit of profit at the expense of their customers' best interests and basic community standards like honesty has been the root cause of widespread misconduct and systemic failings. As a consequence of their own actions, the banks now face a considerable challenge in rebuilding the community's trust and confidence.

Tim Wilson MP
Chair



Contents

Chair's foreword	iii
Membership of the Committee	ix
Terms of reference	xi
Abbreviations.....	xii

THE REPORT

1	Introduction	1
	Background	1
	Conduct of the inquiry	2
	Reader guide and structure of the report.....	3
2	Commonwealth Bank of Australia.....	5
	Overview of misconduct.....	5
	Financial Services Royal Commission.....	7
	Reforms to remuneration	8
	Customer remediation.....	10
	CEO actions to address customer complaints.....	11
	Complaint handling mechanisms	11
	Bank Executive Accountability Regime	12
	Relationship with regulators.....	12
	Competition in the financial system.....	13
	Small-medium enterprise lending.....	14
	Access to credit	15

Decision to restructure.....	15
Assistance to farmers.....	17
3 Westpac Banking Corporation	19
Overview of misconduct.....	19
Financial Services Royal Commission.....	21
Reforms to remuneration	22
Customer remediation.....	23
CEO actions to address customer complaints.....	23
Complaint handling mechanisms	23
Bank Executive Accountability Regime	25
Relationship with regulators.....	26
Competition in the financial system.....	27
Small-medium enterprise lending.....	27
Access to credit	28
Westpac retaining its wealth management business.....	29
Mortgage brokers.....	30
4 ANZ.....	31
Overview of misconduct.....	31
Financial Services Royal Commission.....	33
Reforms to remuneration	34
Customer remediation.....	35
CEO actions to address customer complaints.....	36
Complaint handling mechanisms	36
Bank Executive Accountability Regime	37
Relationship with regulators.....	37
Competition in the financial system.....	38
Small-medium enterprise lending.....	39
Access to credit	39
Decision to restructure.....	40
Mortgage brokers.....	41
Branch closures.....	41
Code of conduct for legal disputes	42


5 National Australia Bank	43
Overview of misconduct.....	43
Financial Services Royal Commission.....	44
Reforms to remuneration	45
Customer remediation.....	46
CEO actions to address customer complaints.....	48
Complaint handling mechanisms	48
Bank Executive Accountability Regime	49
Competition in the financial system.....	50
Small-medium enterprise lending.....	51
Access to credit	52
Mortgage brokers.....	53
Branch closures	54
Code of conduct for legal disputes	55

APPENDIX

Appendix A – Hearings and Witnesses	57
---	----

ADDITIONAL COMMENTS

Additional comments—Labor Members of the committee.....	59
Additional comments—Australian Greens member of the committee	67



Membership of the Committee

Chair	Mr Tim Wilson MP (from 10 September 2018) Ms Sarah Henderson MP (to 28 August 2018)
Deputy Chair	The Hon Matt Thistlethwaite MP
Members	Mr Adam Bandt MP Ms Julia Banks MP (to 28 November 2018) Mr Scott Buchholz MP (to 28 August 2018) Mr Trevor Evans MP Mr Jason Falinski MP (from 20 June 2018) Mr Kevin Hogan MP (to 27 March 2018) Ms Ged Kearney MP (from 21 May 2018 to 10 September 2018) Mr Craig Kelly MP Mr Matt Keogh MP The Hon Craig Laundy MP (from 10 September 2018) Mr Josh Wilson MP (to 10 May 2018 and from 10 September 2018)
Supplementary Member	Ms Claire O'Neil MP

Committee Secretariat

Secretary Mr Stephen Boyd

Inquiry Secretary Dr John White

Technical Advisor Ms Melissa Ljubic

Office Manager Ms Jazmine Rakic



Terms of reference

On 15 September 2016, the Treasurer requested that the House of Representatives Standing Committee on Economics undertake – as a permanent part of the committee’s business – an inquiry into:

- the performance and strength of Australia’s banking and financial system;
- how broader economic, financial, and regulatory developments are affecting that system; and
- how the major banks balance the needs of borrowers, savers, shareholders, and the wider community.

In undertaking its inquiry, the committee was asked to hold at least annual public hearings with the four major banks, with a particular focus on the banks’ perspectives on:

- domestic and international financial market developments as they relate to the Australian banking sector and how these are affecting Australia;
- developments in prudential regulation, including capital requirements, and how these are affecting the policies of Australian banks;
- the costs of funds, impacts on margins and the basis for bank pricing decisions; and
- how individual banks and the banking industry as a whole are responding to issues previously raised in Parliamentary and other inquiries, including through the Australian Bankers’ Association’s April 2016 six point plan to enhance consumer protections and in response to Government reforms and actions by regulators.

The committee was also asked to, as appropriate, engage with Australia’s key economic regulators and give due consideration to the Government’s Financial System Program and other relevant financial sector reforms and reviews.



Abbreviations

ADI	Authorised Deposit-taking Institution
AFCA	Australian Financial Complaints Authority
ANZ	Australia and New Zealand Banking Group
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
AUSTRAC	Australian Transaction Reports and Analysis Centre
BEAR	Banking Executive Accountability Regime
CBA	Commonwealth Bank of Australia
CCR	Comprehensive Credit Reporting
CEO	Chief Executive Officer
FOFA	Future of Financial Advice
GFC	Global Financial Crisis
NAB	National Australia Bank
SME	Small to medium-sized enterprise

