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23 September 2016



Mr Steve Sedgwick AO  
Independent Reviewer  
Retail Banking Remuneration Review  
Via email: [submissions@retailbankingremunerationreview.com.au](mailto:submissions@retailbankingremunerationreview.com.au)

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Dear Mr Sedgwick

**RE: Retail Banking Review**

National Australia Bank (NAB) is pleased to make this submission to the independent review you are conducting of product sales commissions and product based payments in retail banking (Retail Banking Remuneration Review) as part of the Australian Bankers' Association (ABA) six initiatives announced on 21 April 2016.

**We strongly believe any position on product based payments in retail banking should be an industry position supported by legislation.**

NAB's vision is to be Australia and New Zealand's most respected bank. As a major bank we have a unique opportunity to help people and businesses set and achieve their financial goals. Finding the balance between fulfilling our customer's needs and ensuring the bank is protected (and ultimately shareholders and unit holders) is what should drive the customer service proposition.

NAB is increasingly a service business, rather than a sales business. Our reward programs have progressed away from product sales targets and commission based payments to service, quality and risk objectives as the main incentive drivers. Approximately 12% of our 29,000 employee population in Australia are currently on a direct product or volume related payment. The balance of our population that are not on a sales incentive are recognised via a balanced scorecard of objectives.

NAB acknowledges the progress that the FoFA legislation made in the advice area in terms of customer trust and confidence. This legislation informed many of our reward practices in place today so it is testament to how effective legislative reform can be.

We also maintain that no employee should be reliant on variable pay. Over the last three years NAB has proactively amended incentive plans with a view to ensuring that variable components are not disproportionate to the fixed component; so that the fixed component is the main driver of employee behaviour. Whilst there is work still to be done, this is consistent with the prudential guidance in APS510 and remains a focus as part of annual incentive plan and individual remuneration reviews.

We have also demonstrated our commitment to ensuring that sales targets are not the primary focus of employees, NAB has removed the link between performance and sales targets impacting fixed pay increases in our recently ratified Enterprise Agreement through:

- The removal of a minimum performance threshold to receive guaranteed fixed pay increases for Groups 1 & 2 (which largely consists of Customer Advisers, Banking Associates and Mobile Bankers whom are referring, selling and advising on products to meet customer needs); and
- The removal of linkages between specific sales target measures and fixed pay recommendations for employees at Level 3 & 4, which largely lead and direct the above populations and provide support function services to the business.

If the review were to find that the removal of product based payments supported by legislation was the right outcome we would like to highlight that this will take time to implement. Any such move involves

consultation with employees and third parties given our requirements under our Enterprise Agreement and public commitment to consulting with the Financial Services Union.

NAB has changed reward practices in retail banking in recent times in its pursuit of ensuring customer interests are protected. We have changed the payment frequency to allow for effective assurance, introduced deferral and clawbacks on both payments and product sales so that it is not in the employees' interest to sell a product that is not utilised and reduced the focus on sales and financial targets in favour of service, quality and risk targets – this is often referred to a balanced scorecard of objectives. We will retain these assurance practices and continue to improve our detective and preventative controls.

NAB is committed to implementing the six industry initiatives and looks forward to continuing dialogue with your independent review.

If you require any further information or have any questions about our submission please contact me on

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Yours sincerely

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