

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS (SECOND REPORT)

Westpac

Westpac62QW: What mechanisms has the bank put in place to proactively identify patterns of misconduct or negligent conduct which results in negatively impacting the bank consumer?

Who is accountable at the senior executive level to ensure the implementation of these mechanisms (if any)?

Answer: Westpac's risk management strategy addresses the material risks relating to our business. One such risk is conduct risk, the risk that our provision of services and products results in unsuitable or unfair outcomes for our stakeholders or undermines market integrity. The bank's customers are some of our most important stakeholders.

Proactively detecting suspected misconduct by employees is part of our approach to managing this risk and policies, processes and mechanisms have been established to achieve this. These practices are embedded within Westpac's Three Lines of Defence, described below, with related reporting and oversight structures at the brand, divisional and Group Executive levels.

The Three Lines of Defence

Westpac adopts a Three Lines of Defence approach to risk management which reflects our culture of 'risk is everyone's business' in which all employees are responsible for identifying and managing risk and operating within the Group's desired risk profile. This approach is detailed below:

- *1st Line:* Business units are responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite and policies. They are required to establish and maintain appropriate risk management and compliance controls, resources and self-assurance processes.
- *2nd Line:* This involves a separate risk and compliance advisory, control and monitoring function which establishes frameworks, policies, limits and processes for the management, monitoring and reporting of risk. It also evaluates and opines on the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and, where necessary, requires improvement and monitors the 1st Line's progress toward remediation of identified deficiencies. Our 2nd Line of Defence includes Compliance, Group Risk Centres of Excellence (including Operational Risk and Controls Assurance teams) and BT Risk which includes Core Risk and Business Unit Facing (BUF) risk teams.

- *3rd Line:* Our Group Audit function independently evaluates the adequacy and effectiveness of the Group's overall risk management framework and controls.

Identification of misconduct

The misconduct detection and consequence management process commences with monitoring through detective and other controls. For example in Westpac's Consumer Bank, detective controls include alert monitoring and outlier reporting on key risk typologies, conduct alerts maintained by a team separate from frontline staff and sales management and reviews of control self-assessments. Other controls include complaints management and monitoring, whistleblowing, input from regulators or law enforcement bodies and management reporting.

First line teams monitor all the outlier reports and alerts and ensure that front line businesses are appropriately managing these risks and issues. Managers, HR and the First Line teams also identify and flag any conduct issues to management for action, including ultimately to the appropriate accountable General Manager if an individual is to be dismissed for inappropriate conduct. The output from this monitoring is considered as a part of any consequence management, performance and remuneration assessments and regular governance forums and committees. If patterns of behaviour are identified, then additional controls or alerts or outlier reports are considered where appropriate and this will be considered for the design of any scorecard and incentives structures as appropriate.

Second line reviews are conducted by Compliance and Assurance teams, and third line reviews, conducted by Group Assurance, all feed into consequence management processes.

Validation of misconduct

Where potential misconduct has been identified, the process progresses through to the validation phase. Depending on how the misconduct was identified, the validation processes are conducted by one of: Group Investigations, the first line conduct managers, 'one or two up managers' and Risk, Fraud and Operations teams. Where misconduct is confirmed, more formal investigations are undertaken by management / Human Resources or Group Investigations depending on the severity of the transgression. This may then result in remuneration impacts, coaching, performance management, dismissal and occasionally, in serious cases, referral to the police.

Board oversight

The Board is responsible for approving the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement and monitoring the effectiveness of risk management by the Westpac Group, including satisfying itself through appropriate reporting and oversight that appropriate internal control mechanisms are in place and are being implemented in accordance with regulatory requirements.

The Board has delegated to the Board Risk & Compliance Committee responsibility to review and recommend the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement to the Board for approval; set risk appetite consistent with the Group Risk Appetite Statement; approve frameworks; policies and processes for managing risk (consistent with the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement); and review and, where appropriate, approve risks beyond the approval discretion provided to management.

Executive accountability

The CEO and Executive Team are responsible for implementing our Risk Management Strategy and frameworks, and for developing policies, controls, processes and procedures for identifying and managing risk in all of Westpac's activities. In addition to these risk management responsibilities, each Executive is also accountable for the conduct of employees within their designated business area.

At the Group level, oversight and reporting on conduct risk occurs through a variety of committees (including the Group Risk and Compliance Committee) which comprise Executive members and key senior leaders from all business areas.