

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

Westpac Group implementation progress update – November 2019

Overview

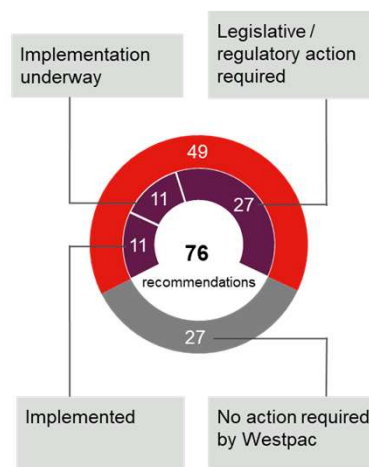
Westpac is proactively and transparently implementing the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

We understand that the Government and the broader community expect the industry to implement the recommendations fully and quickly. We are supporting this by acting early where we can and engaging constructively on the delivery of the Government's Royal Commission Implementation Roadmap.

Of the Royal Commission's 76 recommendations, 49 recommendations presently apply to Westpac.

So far:

- 11 have been implemented. We have either established new practices and procedures to meet recommendations or we have existing practices consistent with the recommendation.
- 11 are being implemented. Some recommendations will require legislative or regulatory action before implementation can be completed.
- 27 require legislative or regulatory action before implementation work can commence. We are undertaking preparatory work where possible, including through participation in Government consultation.



The full set of recommendations that presently apply to Westpac are included in the accompanying table.

Westpac's approach

Westpac has adopted guiding principles which inform our decision making, as well as a strong governance and process framework to ensure there is accountability for implementation of the recommendations.

Westpac has adopted four principles which guide our approach to responding to the Royal Commission:

- **Adopt the spirit of the report:** Consider the spirit and intent of the Report's recommendations and not take a technical approach to interpreting and implementing them;
- **Be proactive:** Move ahead of the legislative and regulatory agenda where appropriate and where we are able;
- **Actively participate:** Engage constructively to ensure positive outcomes for our customers and the economy; and
- **Be transparent:** Be open about Westpac's response and update on progress.

Our governance framework consists of:

- **Board oversight:** Reporting on Westpac's progress on our Royal Commission response plan is provided at each Westpac Board meeting. Material risk and compliance matters relevant to the Royal Commission recommendations are reported to the Board Risk and Compliance Committee.
- **Group Executive accountability:** Group Executives are accountable for the implementation of the recommendations. Any issues requiring escalation from the Royal Commission Response team, established to perform an advisory and reporting role on the recommendations, are addressed by the Executive team.
- **Dedicated response team and reporting:** A centralised Royal Commission Response team performs an advisory and reporting role on the implementation of the recommendations, with monthly reporting of progress from the response team provided to accountable Group Executives at a meeting chaired by the Group Executive, Legal & Secretariat.

We recognise that our response to the Royal Commission must go beyond merely implementing the recommendations of the Royal Commission. Examples of misconduct identified during the Royal Commission highlighted challenges across the industry in a number of respects, including in the management of non-financial risks and the treatment of vulnerable customers. For Westpac, the Royal Commission provided an important opportunity to reflect and consider the changes needed to address these issues.

Our Royal Commission response is part of a broader set of initiatives (including many that were underway prior to the establishment of the Royal Commission) within Westpac to address root causes of issues, rebuild trust and drive better customer outcomes. This includes Westpac's response to our Culture, Governance and Accountability Self-Assessment.

ROYAL COMMISSION RECOMMENDATIONS APPLICABLE TO WESTPAC

The table below includes a status update against the 49 recommendations that presently apply to Westpac.

RECOMMENDATION	WESTPAC STATUS
BANKING	
<p>Recommendation 1.2: Mortgage broker best interests duty</p> <p>The law should be amended to provide that, when acting in connection with home lending, mortgage brokers must act in the best interests of the intending borrower. The obligation should be a civil penalty provision.</p>	<p>Draft legislation and draft regulations were released on 26 August 2019, with proposed application from 1 July 2020.</p> <p>Westpac supports the introduction of the Best Interests Duty. Westpac is reviewing the exposure draft legislation to determine actions required to comply with the legislation and this recommendation.</p>
<p>Recommendation 1.3: Mortgage broker remuneration</p> <p>The borrower, not the lender, should pay the mortgage broker a fee for acting in connection with home lending.</p> <p>Changes in brokers' remuneration should be made over a period of two or three years, by first prohibiting lenders from paying trail commission to mortgage brokers in respect of new loans, then prohibiting lenders from paying other commissions to mortgage brokers.</p>	<p>Westpac supports the removal of conflicted remuneration arrangements such as campaign based and bonus commissions and has already removed these.</p> <p>In January 2019, Westpac changed its upfront commission structure to align with Sedgwick recommendations so commissions are now based on the amount of the loan drawn down, net of any amounts held in offset accounts.</p> <p>Westpac is reviewing the exposure draft legislation to determine actions required to comply with the legislation and this recommendation.</p>
<p>Recommendation 1.5: Mortgage brokers as financial advisers</p> <p>After a sufficient period of transition, mortgage brokers should be subject to and regulated by the law that applies to entities providing financial product advice to retail clients.</p>	<p>The Government stated in its Implementation Roadmap that this recommendation will be progressed following the review of financial advice reforms (recommendation 2.3), given that review may recommend changes to the regulation of financial advisers.</p> <p>Westpac will review the amendments once released and determine if further action is required to comply with the legislation and this recommendation.</p>
<p>Recommendation 1.6: Misconduct by mortgage brokers</p> <p>ACL holders should:</p> <ul style="list-style-type: none"> be bound by information-sharing and reporting obligations in respect of mortgage brokers similar to those referred to in Recommendations 2.7 and 2.8 for financial advisers; and take the same steps in response to detecting misconduct of a mortgage broker as those referred to in Recommendation 2.9 for financial advisers. 	<p>Westpac will review the amendments to legislation once released (expected by 30 June 2020) and determine what actions are required from Westpac to comply with the legislation and this recommendation.</p>
<p>Recommendation 1.7: Removal of point-of-sale exemption</p> <p>The exemption of retail dealers from the operation of the NCCP Act should be abolished.</p>	<p>Westpac will review the amendments to legislation once released (expected to be in force by 30 June 2020) and determine if any action is required to comply with the legislation and this recommendation.</p>



RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 1.8: Amending the Banking Code</p> <p>The ABA should amend the Banking Code to provide that:</p> <ul style="list-style-type: none"> • banks will work with customers: <ul style="list-style-type: none"> ○ who live in remote areas; or ○ who are not adept in using English, to identify a suitable way for those customers to access and undertake their banking; • if a customer is having difficulty proving his or her identity, and tells the bank that he or she identifies as an Aboriginal or Torres Strait Islander person, the bank will follow AUSTRAC's guidance about the identification and verification of persons of Aboriginal or Torres Strait Islander heritage; • without prior express agreement with the customer, banks will not allow informal overdrafts on basic accounts; and • banks will not charge dishonour fees on basic accounts. 	<p>Westpac has worked with the ABA to propose changes to the Banking Code of Practice to implement this recommendation. The revised Code was submitted to ASIC for approval and the ACCC for authorisation.</p> <p>ASIC has not yet provided final approval.</p> <p>The ACCC has issued a draft determination proposing to grant authorisation on the revised Code provisions requiring ACCC authorisation, subject to conditions relating to informal overdrafts. Westpac is currently working with the ABA to discuss these with the ACCC ahead of a final determination which is expected in November.</p>
<p>Recommendation 1.11: Farm debt mediation</p> <p>A national scheme of farm debt mediation should be enacted.</p>	<p>Westpac has long advocated for a nationally harmonised farm debt mediation scheme modelled on the Farm Debt Mediation Act 1994 (NSW), which it believes is the most robust scheme. This will ensure consistency and certainty for customers and the bank.</p> <p>Westpac will review the scheme once established and determine if any action is required by Westpac to comply with the scheme and this recommendation.</p>
<p>Recommendation 1.12: Valuations of land</p> <p>APRA should amend Prudential Standard APS 220 to:</p> <ul style="list-style-type: none"> • require that internal appraisals of the value of land taken or to be taken as security should be independent of loan origination, loan processing and loan decision processes; and • provide for valuation of agricultural land in a manner that will recognise, to the extent possible: <ul style="list-style-type: none"> ○ the likelihood of external events affecting its realisable value; and ○ the time that may be taken to realise the land at a reasonable price affecting its realisable value. 	<p>Westpac is working on its own valuation processes and procedures, including working with a third-party valuer to provide the independence necessary to give effect to the recommendation. This appointment is due to go live by 30 November 2019.</p> <p>APRA intends to finalise revisions to Prudential Standard APS 220 Credit Quality in the second half of 2019 with a view to it becoming effective from 1 July 2020.</p> <p>Westpac will review the finalised Prudential Standard once released and determine if further action is required to comply with the Prudential Standard and this recommendation.</p>
<p>Recommendation 1.13: Charging default interest</p> <p>The ABA should amend the Banking Code to provide that, while a declaration remains in force, banks will not charge default interest on loans secured by agricultural land in an area declared to be affected by drought or other natural disaster.</p>	<p>The ABA has announced the amended Banking Code, incorporating recommendation 1.13, which is to be implemented by March 2020.</p> <p>Westpac has already addressed this recommendation through implementing a solution to not charge default interest on business loans secured by agricultural land in the event of a drought or other natural disaster.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 1.14: Distressed agricultural loans</p> <p>When dealing with distressed agricultural loans, banks should:</p> <ul style="list-style-type: none"> • ensure that those loans are managed by experienced agricultural bankers; • offer farm debt mediation as soon as a loan is classified as distressed; • manage every distressed loan on the footing that working out will be the best outcome for bank and borrower, and enforcement the worst; • recognise that appointment of receivers or any other form of external administrator is a remedy of last resort; and • cease charging default interest when there is no realistic prospect of recovering the amount charged. 	<p>Westpac is well advanced in developing policies and procedures to address each aspect of this recommendation, including the development of a definition of distressed agricultural loans.</p> <p>We expect to have this recommendation fully implemented by March 2020.</p>
<p>Recommendation 1.15: Enforceable code provisions</p> <p>The law should be amended to provide:</p> <ul style="list-style-type: none"> • that ASIC’s power to approve codes of conduct extends to codes relating to all APRA-regulated institutions and ACL holders; • that industry codes of conduct approved by ASIC may include ‘enforceable code provisions’, which are provisions in respect of which a contravention will constitute a breach of the law; • that ASIC may take into consideration whether particular provisions of an industry code of conduct have been designated as ‘enforceable code provisions’ in determining whether to approve a code; • for remedies, modelled on those now set out in Part VI of the Competition and Consumer Act, for breach of an ‘enforceable code provision’; and • for the establishment and imposition of mandatory financial services industry codes. 	<p>Westpac is a subscriber to major industry codes and supports industry bodies and ASIC making the provisions of the codes enforceable. Westpac will work with the relevant industry bodies to consider any action it needs to take to implement this recommendation further.</p>
<p>Recommendation 1.16: 2019 Banking Code</p> <p>In respect of the Banking Code that ASIC approved in 2018, the ABA and ASIC should take all necessary steps to have the provisions that govern the terms of the contract made or to be made between the bank and the customer or guarantor designated as ‘enforceable code provisions’.</p>	<p>Westpac supports the ABA and ASIC making the codes enforceable. Westpac will work with the ABA to assist this process.</p> <p>The Government expects the ABA to work co-operatively with ASIC to have the relevant provisions of the Banking Code approved as ‘enforceable code provisions’ as soon as practicable after legislation providing ASIC with these powers (recommendation 1.15) has been enacted.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 1.17: BEAR product responsibility</p> <p>After appropriate consultation, APRA should determine for the purposes of section 37BA(2)(b) of the Banking Act, a responsibility, within each ADI subject to the BEAR, for all steps in the design, delivery and maintenance of all products offered to customers by the ADI and any necessary remediation of customers in respect of any of those products.</p>	<p>On 28 June 2019, APRA provided a consultation letter to all authorised deposit taking institutions, including Westpac. The letter details how APRA intends to fulfil the recommendation of the Royal Commission and achieve heightened and clarified product accountability among senior executives under BEAR. Westpac provided a formal standalone submission on 23 August 2019 in response to the consultation paper. The submission was supportive of end-to-end product responsibility and sought clarification on our interpretation.</p> <p>APRA will aim to release the final legislative instrument in December 2019. APRA has proposed an implementation date of 1 July 2020.</p>



RECOMMENDATION
WESTPAC STATUS
FINANCIAL ADVICE
Recommendation 2.1: Annual renewal and payment

The law should be amended to provide that ongoing fee arrangements (whenever made):

- must be renewed annually by the client;
- must record in writing each year the services that the client will be entitled to receive and the total of the fees that are to be charged; and
- may neither permit nor require payment of fees from any account held for or on behalf of the client except on the client's express written authority to the entity that conducts that account given at, or immediately after, the latest renewal of the ongoing fee arrangement.

On 30 September 2019, the exit of the provision of personal financial advice by Westpac Group salaried financial planners and authorised representatives was completed and accordingly this Recommendation is not expected to have any ongoing application to Westpac's advice business.

However, this Recommendation is anticipated to have impact beyond the advice business, including potentially imposing obligations on trustees. Westpac will review the amendments to legislation once released (expected by 30 June 2020) and determine if further action is required to comply with the legislation and this recommendation.

Recommendation 2.4: Grandfathered commissions

Grandfathering provisions for conflicted remuneration should be repealed as soon as is reasonably practicable.

Westpac ceased all grandfathered commissions to employed advisors from 1 October 2018. Authorised dealers also ceased receiving payments which were previously retained by the licensee.

Legislation has been passed to end grandfathered commissions by 1 January 2021 and require rebating of commissions to retail clients.

The Government has also consulted on draft regulations, which outline the requirement for financial product manufacturers to pass through to their retail clients the benefits of any previously grandfathered conflicted remuneration still in contracts after 1 January 2021.

Westpac will comply with legislation from the effective date. Westpac is also willing to work with third party licensees to secure an early end to their contracted arrangements. However, Westpac is contractually bound which prevents removal of grandfathered commission arrangement if licensees do not consent to early termination.

Recommendation 2.7: Reference checking and information sharing

All AFSL holders should be required, as a condition of their licence, to give effect to reference checking and information-sharing protocols for financial advisers, to the same effect as now provided by the ABA in its 'Financial Advice – Recruitment and Termination Reference Checking and Information Sharing Protocol'.

Westpac provides references consistent with the ABA reference checking protocol to any requesting licensee provided we have received adviser consent.

On 30 September 2019, the exit of the provision of personal financial advice by Westpac Group salaried financial planners and authorised representatives was completed, however, we have retained a team with the capabilities to continue managing the reference checking process.

Recommendation 2.8: Reporting compliance concerns

All AFSL holders should be required, as a condition of their licence, to report 'serious compliance concerns' about individual financial advisers to ASIC on a quarterly basis.

Westpac currently has a well-developed process of reporting 'serious compliance concerns' about financial advisers to ASIC, as soon as possible (as opposed to on a quarterly basis).

The ongoing application of this Recommendation is expected to be limited to reports concerning historical adviser conduct due to the exit from the provision of personal financial advice by Westpac Group salaried financial planners and authorised representatives.



RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 2.9: Misconduct by financial advisers</p> <p>All AFSL holders should be required, as a condition of their licence, to take the following steps when they detect that a financial adviser has engaged in misconduct in respect of financial advice given to a retail client (whether by giving inappropriate advice or otherwise):</p> <ul style="list-style-type: none"> • make whatever inquiries are reasonably necessary to determine the nature and full extent of the adviser’s misconduct; and • where there is sufficient information to suggest that an adviser has engaged in misconduct, tell affected clients and remediate those clients promptly. 	<p>Westpac has well-developed processes to determine the nature and full extent of an adviser’s misconduct, tell affected clients and remediate those clients promptly.</p> <p>The ongoing application of this Recommendation is expected to be limited to reports concerning historical adviser conduct due to the exit from the provision of personal financial advice by Westpac Group salaried financial planners and authorised representatives.</p>
<p>Recommendation 2.10: A new disciplinary system</p> <p>The law should be amended to establish a new disciplinary system for financial advisers that:</p> <ul style="list-style-type: none"> • requires all financial advisers who provide personal financial advice to retail clients to be registered; • provides for a single, central, disciplinary body; • requires AFSL holders to report ‘serious compliance concerns’ to the disciplinary body; and • allows clients and other stakeholders to report information about the conduct of financial advisers to the disciplinary body. 	<p>On 30 September 2019, the exit of the provision of personal financial advice by Westpac Group salaried financial planners and authorised representatives was completed and accordingly this recommendation, once implemented through amending legislation, is not expected to have any application to Westpac.</p> <p>As and when the new disciplinary system is established Westpac will consider further whether it applies to Westpac (in any way) – including whether any changes to our processes are required in order to comply with sub-recommendation (c).</p>

RECOMMENDATION
WESTPAC STATUS
SUPERANNUATION
Recommendation 3.1: No other role or office

The trustee of an RSE should be prohibited from assuming any obligations other than those arising from or in the course of its performance of the duties of a trustee of a superannuation fund.

Westpac has established a program to implement these changes involving the removal of its Super Trustees/Registered Superannuation Entities from acting as Responsible Entity for approximately 100 investment schemes. This process will continue subject to the final legislative approach.

Westpac will review the amendments to legislation once released (expected by 30 June 2020) and determine any further actions required to comply with the legislation and this recommendation.

Recommendation 3.2: No deducting advice fees from MySuper accounts

Deduction of any advice fee (other than for intra-fund advice) from a MySuper account should be prohibited.

This recommendation is scheduled to be legislated by 1 July 2020. Westpac intends to make system and disclosure changes in accordance with the legislation at the relevant time to avoid pre-emptive changes that may require rework.

Recommendation 3.3: Limitations on deducting advice fees from choice accounts

Deduction of any advice fee (other than for intra fund advice) from superannuation accounts other than MySuper accounts should be prohibited unless the requirements about annual renewal, prior written identification of service and provision of the client's express written authority set out in Recommendation 2.1 in connection with ongoing fee arrangements are met.

Westpac is proactively reviewing its processes and controls around adviser fees and implementing changes where relevant.

Westpac will review the amendments to legislation once released (expected by 30 June 2020) and determine further actions required to comply with the legislation and this recommendation.

Recommendation 3.4: No hawking

Hawking of superannuation products should be prohibited. That is, the unsolicited offer or sale of superannuation should be prohibited except to those who are not retail clients and except for offers made under an eligible employee share scheme. The law should be amended to make clear that contact with a person during which one kind of product is offered is unsolicited unless the person attended the meeting, made or received the telephone call, or initiated the contact for the express purpose of inquiring about, discussing or entering into negotiations in relation to the offer of that kind of product.

Westpac ceased Super for Life sales in branches from the 1 April 2019 and a referral process was implemented whereby the Branch Network refers potential Super customers to a phone-based team (Wealth Connect).

Westpac will review the amendments to legislation once released (expected by 30 June 2020) and determine any further actions required to comply with the legislation and this recommendation.

Recommendation 3.5: One default account

A person should have only one default account. To that end, machinery should be developed for 'stapling' a person to a single default account.

In its Implementation Roadmap, the Government noted that implementation of this recommendation will be considered in the context of the findings and recommendations of the Productivity Commission's report Superannuation: Assessing Efficiency and Competitiveness, with no timeframe identified.

Westpac supports a competitive superannuation selection process, consistent with the Productivity Commission's recommendation, and one that enables consumers to choose a default account once and take that account with them until they choose a different option.

Westpac will review the amendments once released and determine actions required to comply with the legislation and this recommendation.



RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 3.6: No treating of employers</p> <p>Section 68A of the SIS Act should be amended to prohibit trustees of a regulated superannuation fund and associates of a trustee, doing any of the acts specified in section 68A(1)(a), (b) or (c) where the act may reasonably be understood by the recipient to have a substantial purpose of having the recipient nominate the fund as a default fund or having one or more employees of the recipient apply or agree to become members of the fund.</p> <p>The provision should be a civil penalty provision enforceable by ASIC.</p>	<p>Legislation has now been passed to implement this recommendation by amending section 68A of the Superannuation Industry (Supervision) Act 1993.</p> <p>Westpac already had controls in place to monitor compliance with the “no treating” obligations under s68A and does not seek to treat employers to obtain employee superannuation accounts.</p>
<p>Recommendation 3.9: Accountability regime</p> <p>Over time, provisions modelled on the BEAR should be extended to all RSE licensees, as referred to in Recommendation 6.8.</p>	<p>Westpac’s current BEAR mapping processes extend to its RSE subsidiaries.</p> <p>Consultation on the BEAR provisions is expected before the end of 2019 (with legislation due by the end of 2020).</p>



RECOMMENDATION
WESTPAC STATUS
INSURANCE
Recommendation 4.1: No hawking of insurance

Consistently with recommendation 3.4, which prohibits the hawking of superannuation products, hawking of insurance products should be prohibited.

Westpac supports regulation that prevents inappropriate unsolicited insurance sales practices. Westpac does not offer insurance through outbound telephone sales.

Westpac will review the amendments once released and determine any actions required to comply with the legislation and this recommendation.

Recommendation 4.3: Deferred sales model for add-on insurance

A Treasury-led working group should develop an industry-wide deferred sales model for the sale of any add-on insurance products (except policies of comprehensive motor insurance). The model should be implemented as soon as is reasonably practicable.

Westpac does not manufacture or sell add-on auto insurance products. Westpac ceased distributing add-on auto insurance (through car dealers and via the call centre under the St.George brand) in 2016.

Westpac has also ceased the sale of Consumer Credit Insurance through all channels from 1 July 2019.

Based on Treasury's Consultation Paper, Westpac is concerned the legislation could adversely affect the sale of home and contents insurance at the time of a mortgage, potentially to the detriment of consumers. Westpac will review the legislation once released and determine any further actions required to comply with the legislation and this recommendation.

Recommendation 4.5: Duty to take reasonable care not to make a misrepresentation to an insurer

Part IV of the Insurance Contracts Act should be amended, for consumer insurance contracts, to replace the duty of disclosure with a duty to take reasonable care not to make a misrepresentation to an insurer (and to make any necessary consequential amendments to the remedial provisions contained in Division 3).

Westpac's practices are already broadly consistent with this recommendation. That is, Westpac asks specific questions of a prospective insured when applying for insurance, rather than relying on the broader duty of disclosure, being in summary "to disclose to the insurer, before the relevant contract of insurance is entered into, every matter that is known to the insured, being a matter that the insured knows to be a matter relevant to the decision of the insurer whether to accept the risk and, if so, on what terms".

Westpac will review the amendments to legislation once released (expected 30 June 2020) and determine whether product disclosure documentation and related collateral will require updating to comply with the legislation and this recommendation.

Recommendation 4.6: Avoidance of life insurance contacts

Section 29(3) of the Insurance Contracts Act should be amended so that an insurer may only avoid a contract of life insurance on the basis of non-disclosure or misrepresentation if it can show that it would not have entered into a contract on any terms.

Westpac's practices are already consistent with this recommendation. That is, unless the non-disclosure is such that we would not have provided cover on any terms, Westpac will not avoid a contract for innocent non-disclosure of a health issue. In these circumstances, Westpac would provide the cover that we would have offered should that non-disclosure have not occurred.

Westpac will review the amendments to legislation once released (expected 30 June 2020) and determine whether product disclosure documentation and related collateral will require updating to comply with the legislation and this recommendation.



RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 4.7: Application of unfair contract terms provisions to insurance contracts</p> <p>The unfair contract terms provisions now set out in the ASIC Act should apply to insurance contracts regulated by the Insurance Contracts Act. The provisions should be amended to provide a definition of the 'main subject matter' of an insurance contract as the terms of the contract that describe what is being insured.</p> <p>The duty of utmost good faith contained in section 13 of the Insurance Contracts Act should operate independently of the unfair contract terms provisions.</p>	<p>On 30 July 2019, the Government released exposure draft legislation to extend the unfair contract terms regime to insurance contracts.</p> <p>Westpac is reviewing product disclosure documentation and related collateral against the requirement of the legislation to make any changes required to comply with the new regime.</p>
<p>Recommendation 4.8: Removal of claims handling exemption</p> <p>The handling and settlement of insurance claims, or potential insurance claims, should no longer be excluded from the definition of 'financial service'.</p>	<p>Westpac will review the amendments once released and determine actions required to comply with the legislation and this recommendation.</p>
<p>Recommendation 4.9: Enforceable code provisions</p> <p>As referred to in Recommendation 1.15, the law should be amended to provide for enforceable provisions of industry codes and for the establishment and imposition of mandatory industry codes.</p> <p>In respect of the Life Insurance Code of Practice, the Insurance in Superannuation Voluntary Code and the General Insurance Code of Practice, the Financial Services Council, the Insurance Council of Australia and ASIC should take all necessary steps, by 30 June 2021, to have the provisions of those codes that govern the terms of the contract made or to be made between the insurer and the policyholder designated as 'enforceable code provisions'.</p>	<p>Westpac is a subscriber to applicable industry codes of practice and seeks to operate consistently with each code's obligations.</p> <p>Westpac will work with the relevant industry bodies to implement this recommendation.</p>
<p>Recommendation 4.10: Extension of the sanctions power</p> <p>The Financial Services Council and the Insurance Council of Australia should amend section 13.10 of the Life Insurance Code of Practice and section 13.11 of the General Insurance Code of Practice to empower (as the case requires) the Life Code Compliance Committee or the Code Governance Committee to impose sanctions on a subscriber that has breached the applicable Code.</p>	<p>Westpac will work with the Financial Services Council and Insurance Council of Australia to implement this recommendation.</p>
<p>Recommendation 4.11: Co-operation with AFCA</p> <p>Section 912A of the Corporations Act should be amended to require that AFSL holders take reasonable steps to co-operate with AFCA in its resolution of particular disputes, including, in particular, by making available to AFCA all relevant documents and records relating to issues in dispute.</p>	<p>Westpac has principles and processes in place to engage with AFCA co-operatively, including being open and co-operative in providing relevant documents related to issues in dispute.</p>

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 4.12: Accountability regime</p> <p>Over time, provisions modelled on the BEAR should be extended to all APRA-regulated insurers, as referred to in Recommendation 6.8.</p>	<p>Westpac's current BEAR mapping processes extend to its insurance business subsidiaries.</p> <p>Consultation on the BEAR provisions is expected before the end of 2019 (with legislation due by the end of 2020).</p>
<p>Recommendation 4.13: Universal terms review</p> <p>Treasury, in consultation with industry, should determine the practicability, and likely pricing effects, of legislating universal key definitions, terms and exclusions for default MySuper group life policies.</p>	<p>Westpac will review the amendments once released and determine actions required to comply with the legislation and this recommendation.</p>
<p>Recommendation 4.14: Additional scrutiny for related party engagements</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees that engage a related party to provide group life insurance, or who enter into a contract, arrangement or understanding with a life insurer by which the insurer is given a priority or privilege in connection with the provision of life insurance, to obtain and provide to APRA within a fixed time, independent certification that the arrangements and policies entered into are in the best interests of members and otherwise satisfy legal and regulatory requirements.</p>	<p>APRA has completed and published a post-implementation review of the superannuation prudential framework and will address these recommendations as part of the implementation of the findings of that review. Consultation on revised standards will take place throughout 2020.</p> <p>The existing engagement of Westpac Life Insurance Services for insurance services is the Group's only life insurance arrangement potentially falling within the scope of this recommendation. Insurance arrangements are already managed closely under SPS250 and the Trustees Insurance Management Framework (IMF).</p> <p>APRA stated it will consider whether revisions to the prudential standards or prudential guidance are required.</p> <p>Westpac will review the amendments once released and determine actions required to comply with the legislation and this recommendation.</p>
<p>Recommendation 4.15: Status attribution to be fair and reasonable</p> <p>APRA should amend Prudential Standard SPS 250 to require RSE licensees to be satisfied that the rules by which a particular status is attributed to a member in connection with insurance are fair and reasonable.</p>	<p>Westpac will review the finalised Prudential Standard once released and determine further actions required to comply with the Prudential Standard and this recommendation.</p>

RECOMMENDATION
WESTPAC STATUS
CULTURE, GOVERNANCE AND REMUNERATION
Recommendation 5.1: Supervision of remuneration – principles, standards and guidance

In conducting prudential supervision of remuneration systems, and revising its prudential standards and guidance about remuneration APRA should give effect to the principles, standards and guidance set out in the Financial Stability Board's publications concerning sound compensation principles and practices. Recommendations 5.2 and 5.3 explain and amplify aspects of this Recommendation.

On 23 July 2019, APRA released a discussion paper and draft Prudential Standard CPS 511 to strengthen remuneration practices across all APRA-regulated entities. Consultation on the proposed reforms took place in October 2019. Westpac provided its response on 18 October 2019.

Westpac will review the amendments once released and determine further actions required to comply with the legislation and this recommendation.

Recommendation 5.2: Supervision of remuneration – aims

In conducting prudential supervision of the design and implementation of remuneration systems, and revising its prudential standards and guidance about remuneration, APRA should have, as one of its aims, the sound management by APRA-regulated institutions of not only financial risk but also misconduct, compliance and other non-financial risks.

Refer to 5.1.

Recommendation 5.3: Revised prudential standards and guidance

In revising its prudential standards and guidance about the design and implementation of remuneration systems, APRA should:

- require APRA-regulated institutions to design their remuneration systems to encourage sound management of non-financial risks, and to reduce the risk of misconduct;
- require the board of an APRA-regulated institution (whether through its remuneration committee or otherwise) to make regular assessments of the effectiveness of the remuneration system in encouraging sound management of non-financial risks, and reducing the risk of misconduct;
- set limits on the use of financial metrics in connection with long-term variable remuneration;
- require APRA-regulated institutions to provide for the entity, in appropriate circumstances, to claw back remuneration that has vested; and
- encourage APRA-regulated institutions to improve the quality of information being provided to boards and their committees about risk management performance and remuneration decisions.

Refer to 5.1.

RECOMMENDATION	WESTPAC STATUS
<p>Recommendation 5.4: Remuneration of frontline staff</p> <p>All financial services entities should review at least once each year the design and implementation of their remuneration systems for front line staff to ensure that the design and implementation of those systems focus on not only what staff do, but also how they do it.</p>	<p>Westpac conducts an annual review of the design and implementation of remuneration arrangements for our front-line roles in our Consumer and Business divisions. We have established governance committees to support the review and approval of front-line performance and reward frameworks and have a structured framework to annually test and understand the effectiveness of our remuneration arrangements.</p> <p>Key changes over the last few years have focused on continuing to support our service culture and strategy and ensure alignment to the Sedgwick recommendations. Examples include:</p> <ul style="list-style-type: none"> • limiting financial measures in scorecards to no more than 30%; • removing variable reward for all teller roles from 1 April 2019; • as of 1 October 2019, most frontline roles are on a discretionary framework rather than a formulaic scorecard to determine their variable reward. 800 front line roles (retail lenders) continue to have a scorecard for FY20 reflective of the wider market practice, however Westpac anticipates these roles will also transition to a discretionary framework in the short-medium term; and • introducing a maximum variable reward cap for lending roles of 50% of fixed pay effective from 1 October 2019. Only a very small number of lenders have earned above this level historically and the majority receive well below 50% of fixed pay in variable reward.
<p>Recommendation 5.5: The Sedgwick Review</p> <p>Banks should implement fully the recommendations of the Sedgwick Review.</p>	<p>Westpac was compliant with the Sedgwick recommendations relating to its employees effective 1 October 2018. Westpac has implemented all Sedgwick Recommendations relating to third-party arrangements effective from 1 January 2019 (excluding Recommendation 18 relating to mortgage broker remuneration given the Government's policy reform in this area).</p>
<p>Recommendation 5.6: Changing culture and governance</p> <p>All financial services entities should, as often as reasonably possible, take proper steps to:</p> <ul style="list-style-type: none"> • Assess the entity's culture and its governance; • Identify any problems with that culture and governance; • Deal with those problems; and • Determine whether the changes it has made have been effective. 	<p>Westpac has frameworks in place which encompass regular assessments of risk culture, organisational culture and governance.</p> <p>In addition to the usual cycles, other more detailed reviews of culture and/or governance are undertaken to determine the effectiveness of our existing cycles. The most prominent is the deep analysis of Westpac's culture, governance and accountability which was carried out as part of Westpac's CGA self-assessment in 2018.</p>

RECOMMENDATION

WESTPAC STATUS

REGULATORS

Recommendation 6.7: Statutory amendments

The obligations in sections 37C and 37CA of the Banking Act should be amended to make clear that an ADI and accountable person must deal with APRA and ASIC (as the case may be) in an open, constructive and co-operative way. Practical amendments should be made to provisions such as section 37K and section 37G(1) so as to facilitate joint administration.

Westpac's approach to dealing with regulators and its documented strategy in how we deal with regulators is to act in open, co-operative and constructive way.

Westpac will review the amendments to legislation once released (expected by 30 June 2020) and determine any further actions required to comply with the legislation and this recommendation.

Recommendation 6.8: Extending the BEAR

Over time, provisions modelled on the BEAR should be extended to APRA-regulated financial services institutions. APRA and ASIC should jointly administer those new provisions

Westpac's current BEAR mapping processes extend to all its APRA-regulated financial services subsidiaries.

Consultation on the BEAR provisions is expected before the end of 2019 (with legislation due by the end of 2020).

OTHER IMPORTANT STEPS

Recommendation 7.1: Compensation scheme of last resort

The three principal recommendations to establish a compensation scheme of last resort made by the panel appointed by government to review external dispute and complaints arrangements made in its supplementary final report should be carried into effect.

The Government has confirmed that it proposes an industry-funded, forward-looking compensation scheme of last resort, and for the payment of historical unpaid claims in accordance with the resources allocated in the 2019-20 Budget.

Westpac will review the amendments once released (expected end-2020) and determine actions required to comply with the legislation and this recommendation.

Recommendation 7.2: Implementation of recommendations

The recommendations of the ASIC Enforcement Review Taskforce made in December 2017 that relate to self reporting of contraventions by financial services and credit licensees should be carried into effect.

Westpac will review the amendments to legislation once released (expected by 30 June 2020) and determine further actions required to comply with the legislation and this recommendation.

