

21 AUGUST 2020

ROYAL COMMISSION
RECOMMENDATIONS
AND ANZ ACTIONS

ROYAL COMMISSION RECOMMENDATIONS AND ANZ ACTIONS

ANZ is responding to the 'spirit' and the 'letter' of the Royal Commission.

- We announced sixteen commitments in February 2019 responding to a number of Commissioner Hayne's recommendations and comments. These were made to improve the treatment of retail customers, small businesses and farmers in Australia. They picked up on work already undertaken or started in Australia as well as adding new reforms to past initiatives.
- Our progress as at 21 August 2020 on these is set out below.
- The progress includes action in relation to distressed agricultural loans, remuneration of front line staff, the Sedgwick Review, and culture and governance. These actions relate to recommendations 1.14, 5.4, 5.5 and 5.6 which were directed specifically at banks for their action independent of Government and regulator responses.
- ANZ continues to engage with Government, the regulators and industry as they progress their response to the Royal Commission recommendations.

Action	Rationale	Where we are up to
Retail customers		
1. Make our products fairer		
1.1. Removing overdrawn and dishonour fees on basic accounts	<p>Commissioner Hayne's recommendation 1.8 was that the Banking Code of Practice 2019 (Banking Code) be amended to, among other things, provide that banks:</p> <ul style="list-style-type: none"> • Without prior express agreement with the customer, will not allow informal overdrafts on basic accounts; and • Will not charge dishonour fees on basic accounts. 	<p>We completed this commitment.</p> <p>Circumstances where it is not reasonably possible or practical to prevent an account from becoming overdrawn are considered by the revised Banking Code of Practice, which came into effect on 1 March 2020.</p>
1.2. Accelerating work on how we design and distribute products so that customers get products that better meet their needs	<p>The design and distribution obligations in the new Part 7.8A of the <i>Corporations Act 2001</i> (Cth) were expected to commence in April 2021.</p>	<p>Our work on how we design and sell our products and the use and value which customers get from them includes programs to contact customer groups who may benefit from alternative arrangements (see commitments 3.1 and 3.2 below).</p> <p>A dedicated project team continues to implement the design and distribution obligations, which now come into effect in October 2021.</p>

Action	Rationale	Where we are up to
2. Improve our service to Aboriginal and Torres Strait Islander customers in remote communities		
2.1. Setting up a dedicated phone service	Commissioner Hayne encouraged banks to develop a telephone service to assist Aboriginal and Torres Strait Islander peoples (and others living in remote areas) to access their banking.	We completed this commitment. The service is staffed by bankers trained in indigenous cultural awareness and assisting vulnerable customers.
2.2. Easier options to prove identity	Commissioner Hayne's recommendation 1.8 was to amend the Banking Code to follow AUSTRAC's guidance about the identification and verification of persons of Aboriginal or Torres Strait Islander heritage.	We completed this commitment by introducing measures to make it easier for indigenous customers to prove their identity.
3. Help customers by:		
3.1. Helping consumer credit card customers who are carrying persistent debt	We want to assist our customers' make choices which may help them manage and reduce their debt and banking costs.	We have acted on this commitment by establishing a process to contact and offer assistance to credit card customers who are carrying persistent debt. The customer contact program was paused on 19 March 2020 to enable ANZ to respond to COVID-19 with support for our customers. Credit card debt reduction options offered to customers include transferring to a product with lower interest rates, reducing credit limits, and repayment plans.
3.2. Help eligible customers move to low-cost basic bank accounts		We completed this commitment by establishing a process to contact customers in receipt of eligible Centrelink or Veterans' Affairs benefits to offer them a move to a low-cost basic bank account. The customer contact program was paused on 19 March 2020 to enable ANZ to respond to COVID-19 with support for our customers. The program was resumed on 22 July 2020.

Action	Rationale	Where we are up to
Farming customers		
4. Publish clear principles on how we help farmers including through:		We completed this commitment by implementing principles outlining the assistance we offer to family farmers in financial distress. ¹
4.1. Not charging farmers default interest in areas declared to be affected by drought or other natural disasters	Commissioner Hayne's recommendation 1.13 was the Banking Code be amended 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.	Revisions to the Banking Code of Practice came into effect on 1 March 2020. In our principles, we undertake to not charge default interest on a farmer's loan facilities if they are farming in an area subject to a drought or natural disaster government declaration.
4.2. Valuing farm land separately from the loan origination process	Commissioner Hayne's recommendation 1.12 was that the Australian Prudential Regulation Authority (APRA) should amend its Prudential Standard APS 220 to 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.	In our principles, we undertake that all of our valuations are conducted independently of loan origination to ensure independence between the valuation process and the loan approval process.
4.3. Giving farmers early access to farm debt mediation if they get into difficulties and supporting a national scheme of farm debt mediation	Commissioner Hayne's recommendation 1.14 was that banks, when dealing with distressed agricultural loans, should offer farm debt mediation as soon as a loan is classified as distressed; and manage every distressed loan on the basis that a mutually agreed "work out" will be the best outcome for bank and borrower, and enforcement the worst.	In our principles, we undertake that: <ul style="list-style-type: none"> • Our team has specialist Agri bankers; • We will offer early mediation to a farmer within 90 days of the banking relationship being managed by our specialist team. Due to COVID-19, we have temporarily paused making offers of early farm debt mediation.

¹ Refer to <https://www.anz.com.au/business/industries/agribusiness/farm-debt-mediation-commitment/>

Action	Rationale	Where we are up to
4.4. Reinforcing our preference for working out difficulties over enforcing agricultural loans or appointing an external manager	Commissioner Hayne's recommendation 1.11 was that a national scheme of farm debt mediation should be enacted.	<ul style="list-style-type: none"> • Before we participate in early mediation, we will inform farmers of their right, as an alternative, to make a complaint to the Australian Financial Complaints Authority (AFCA); • We support a national farm debt mediation scheme and will always offer farm debt mediation prior to enforcement action being taken; and • We believe that enforcement is a measure of last resort after other reasonable options have been explored. We also believe that early engagement is in the best interest of all and will likely result in a better outcome.

Remuneration

5. Redesign how we manage and reward our people to better focus on the interests of our customers, the long-term health of the bank and team, rather than individual, outcomes	Commissioner Hayne's recommendation 5.4 was the regular review of remuneration systems for front line staff to ensure that the design and implementation focuses on not only what staff do, but also how they do it.	<p>We completed this commitment by changing the way we financially reward and manage the performance of our people. Performance considers 'How' we work (our values and behaviours) and 'What' we deliver. These changes reduce the emphasis on variable pay and include replacing bonuses for the vast majority of employees with an incentive based on the overall performance of the ANZ Group.</p> <p>We complete an annual review of the Group Remuneration Policy, including the effectiveness of our remuneration arrangements.</p>
6. Continue to implement the recommendations of the Sedgwick remuneration review	Commissioner Hayne's recommendation 5.5 was that banks should fully implement the recommendations of the Sedgwick Review. ²	We completed this commitment, with the exclusion of those recommendations that are being managed at the industry level.

² The Sedgwick Retail Banking Remuneration Review relates to the ANZ Retail and Commercial business

Action	Rationale	Where we are up to
Accountability, culture and governance		
7. Strengthen our accountability and consequence framework	Through the Royal Commission process we identified that we have not consistently held executives to account for significant failings.	<p>We completed this commitment by strengthening our accountability and consequence framework. This includes:</p> <ul style="list-style-type: none"> Principles that guide a more consistent approach to consequence management, including impacts on remuneration; Guidance to our leaders on when and how to undertake accountability reviews; and Expanded disclosure of senior leader accountability.
8. Culture audits and acting on identified problems	<p>Commissioner Hayne's recommendation 5.6 was that we should:</p> <ul style="list-style-type: none"> assess our culture and governance; identify and deal with any problems with that culture and governance; and determine whether the changes made have been effective.³ 	<p>We are continuing to act on this by:</p> <ul style="list-style-type: none"> Conducting culture reviews by Internal Audit and acting on problems identified; Reviewing cultural strengths and weaknesses, as well as actions directed at cultural improvement; Testing a new framework for understanding and improving our culture; and Encouraging a strong 'speak up' culture.
9. Allocate specific responsibility to our BEAR executive(s) for our products and complaints about them	Commissioner Hayne's recommendation 1.17 was that APRA should require banks to have a responsibility under the Banking Executive Accountability Regime (BEAR) for all steps in the design, delivery and maintenance of all products and any remediation.	The Government has commenced consultation on the extension to BEAR, to be known as the Financial Accountability Regime (FAR). We will complete these commitments when legislation to enact the FAR is passed.

³ We recognise that recommendation 5.6 requires the ongoing review of our culture

Action	Rationale	Where we are up to
10. Make our BEAR executives explicitly responsible for preventing conduct that harms customers	The Government's response to Commissioner Hayne's recommendations 6.6, 6.7 and 6.8 stated that it will introduce a regime similar to BEAR for non-prudentially regulated entities focused on conduct. This would be administered by ASIC.	<p>Before then, our executives must act with honesty and integrity, and with due skill, care and diligence and their accountability statements set out requirements for them to:</p> <ul style="list-style-type: none"> • Develop and maintain open and constructive relationships with all regulators (including ASIC where applicable); and • Be accountable for the products they offer to their customers and complaints about them.
11. Require our BEAR executives to be open, constructive and cooperative with ASIC		

Remediation

12. Publicly report on how we are fixing our significant failures	The appropriateness and timing of remediation was subject to significant attention through the Royal Commission process.	We completed this commitment by publically reporting on our progress on our remediations in both our half- and full-year reporting suite.
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Dispute resolution

13. Commit to public principles on managing complaints and disputes from retail and small business customers	The principles are aimed at giving customers transparency about how we will treat their complaint against us and, if legal proceedings cannot be avoided, act fairly in them.	<p>We completed this commitment by implementing Dispute Resolution Principles, incorporating model litigant guidelines.</p> <p>The principles apply to our people and our representatives (e.g. external law firms) when managing individual retail and small business customer complaints, disputes and litigation in Australia.⁴</p>
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⁴ Refer <https://www.anz.com.au/content/dam/anzcomau/pdf/dispute-resolution-principles.pdf>

Action	Rationale	Where we are up to
14. Commit to the Australian Financial Complaints Authority's 'look back'	The Government's response to Commissioner Hayne's recommendation 7.1 required AFCA to consider disputes dating back to 1 January 2008.	We completed this commitment by establishing a dedicated team responsible for investigating legacy complaints lodged with AFCA.
Financial advice		
15. Focus on how we provide ongoing financial advice to customers so they always get the service they pay for and value	Commissioner Hayne's recommendation 2.1 was for several changes to the law concerning ongoing fee arrangements in response to the "fees for no service" failures	We stopped offering financial advice service on an ongoing fee basis. Note: the Government deferred the implementation of some related Royal Commission commitments due to COVID-19. ANZ has been working towards delivering these commitments, where practicable, ahead of formal legislation.
16. Tell our customers in writing of areas where our financial advisors may not be independent, impartial or unbiased	Commissioner Hayne's recommendation 2.2 was that the law be changed to require personal financial advisors to give clients a written statement explaining simply and concisely why the adviser is not independent, impartial and unbiased (if that is the case).	We completed this commitment by amending our disclosure documents.