

Royal Commission update

This update is by exception and so where implementation of recommendations has been finalised and we have reported these previously, these are not reproduced in full.

Banking

Mortgage broking

CBA notes recent legislation introducing a best interest duty for brokers and will work with Government on the implementation of those legislative requirements **(1.2)**.

We have improved standards and training relating to brokers, updated broker remuneration to pay net of offset and removed volume/campaign based commissions. In addition:

- We will engage constructively with brokers, Government and regulators around any future changes to broker remuneration models, including in relation to pending legislative change **(1.3)**.
- We continue to progress measures to report on and share information around broker misconduct, and these measures will be implemented in line with pending legislation and regulation **(1.6)**.

Agribusiness Loans

As of the end of 2019 we ceased internal valuations of rural property for new agribusiness loans **(1.12)**.

We have ceased charging default interest on loans relating to farming operations that are secured by agricultural land when the land used for that operation is in drought or subject to another natural disaster **(1.13)**.

Where agricultural loans are in distress **(1.14)** we now:

- Make the offer of Farm Debt Mediation earlier in the process subject to the constraints of the individual state based legislation
- Manage the loan with a view that working out is the best option and enforcement is the worst option;
- Appoint receivers as a remedy of last resort; and
- Cease charging default interest where there is no realistic prospect of the business recovering.

We also continue to build the capability of specialist banking teams that manage performing and distressed agricultural loans **(1.14)**.

Financial advice

CBA customers who receive advice from planners in our Commonwealth Financial Planning salaried advice channel are only charged for advice services after the service has been delivered. Advisers we authorise to provide advice through our self-employed channels will implement required changes in line with the legislative timeframe (2.1). We continue to review advice fee arrangements to deceased estates dating back to 2008 and amounts identified as wrongly charged either have been, or continue to be, refunded with interest.

We support an industry-wide transition away from grandfathered commissions (2.4). Ahead of recently passed legislation coming into effect, in 2021, we are progressing well in rebating and/or ceasing grandfathered commissions from all products to Commonwealth Financial Planning customers who receive advice from CFP planners in our salaried advice channels.

CBA reports serious compliance concerns to ASIC regarding individual financial advisers (2.8) and we report adviser misconduct (2.9). We will make any necessary changes to our processes based on any further guidance from ASIC on relevant reporting criteria.

Insurance

CBA has ceased the sale of new Credit Card Plus and Personal Loan Protection insurance. In relation to deferred sales model for add-on insurance, CBA will make any further changes as required by forthcoming legislation in this area (4.3).

For recommendations on removing unfair contract terms in insurance (4.7); removing the claims handling exemption (4.8), and making code provisions on insurance enforceable (4.9), CBA will make any further changes as required by forthcoming legislation in these areas.

APRA has indicated it is working on changes to governance arrangements for group life policies attached to superannuation (4.14, 4.15). In the interim, APRA wrote to all Registrable Superannuation Entities (RSE) Licensees indicating that it would be good practice for trustees to commission an independent review. CBA's superannuation business, Colonial First State (CFS), appointed an independent consultant to advise on and help manage a tender for Group life insurance.

Superannuation

CFS continues to work towards implementing structural changes such that trustees will not hold other roles (3.1), engaging closely with APRA in relation to this, ahead of legislative change.

CFS continues to take steps to prepare for legislative change in relation to the deduction of advice fees from MySuper accounts (3.2) and choice accounts (3.3).

CFS does not proactively sell new superannuation products through branches or cold calling (3.4), and will participate in industry consultations ahead of legislative change governing the sale of superannuation products.

Culture, governance

CBA will work with APRA on forthcoming updates to prudential standards as they relate to remuneration (5.1, 5.2, 5.3). We have already made significant reforms to our remuneration frameworks and practices flowing from APRA's Independent Prudential Inquiry into CBA ('the Prudential Inquiry').

We have made enhancements to the remuneration of retail frontline staff (5.4) to place greater emphasis on the balance of outcomes to be achieved and the manner in which they are achieved. This has included increasing the weighting of customer measures in balanced scorecards of frontline roles to a minimum of 30 per cent, and up to 100 per cent for tellers.

We have implemented the Sedgwick Review (5.5) in all respects other than in relation to mortgage brokers (see Mortgage Brokers section, above), and in relation to variable remuneration for some lenders. Additionally, we have implemented the process of annual reviews to examine the effectiveness of our remuneration frameworks for frontline roles. We continue to refine and evolve our remuneration frameworks.

On reforms to our overall approach to culture and governance (5.6), progress continues towards implementing the recommendations from the Prudential Inquiry. In February 2020 the Independent Reviewer, Promontory, reported that as at December 31 CBA had submitted 107 milestones, with work continuing on 66 milestones.