

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF AUSTRALIA'S FOUR MAJOR BANKS

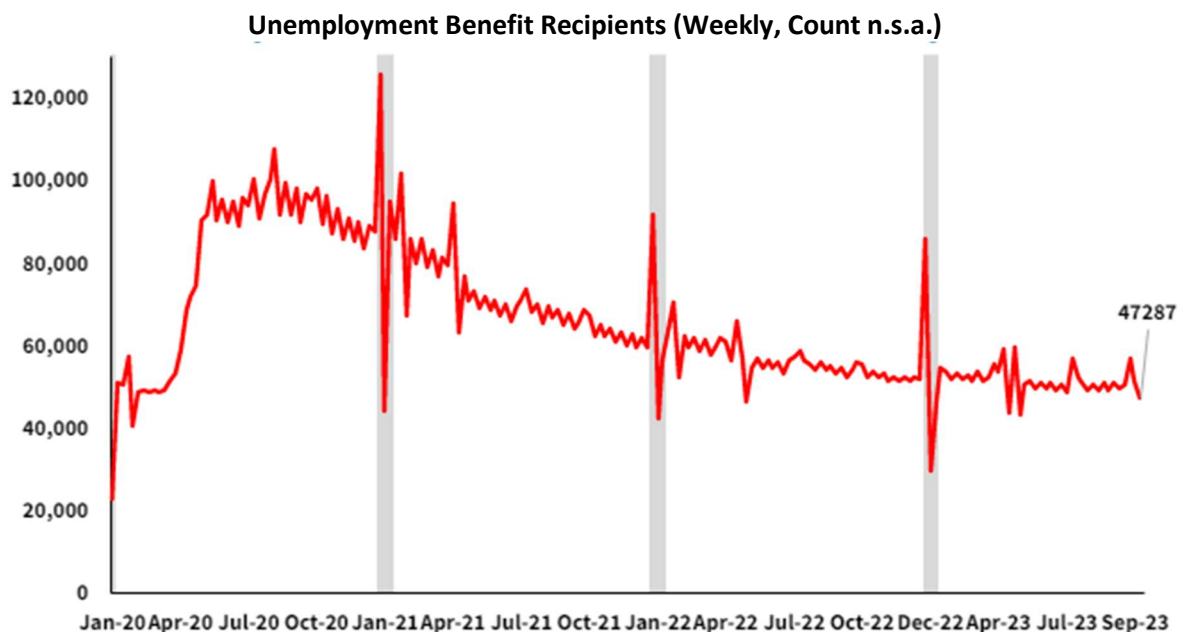
NAB01QON

CHAIR: ...We follow the ABS labour market releases. You see granular data for your customers; what are your observations on the labour market?

Mr McEwan: It is still a labour market with unemployment around that 3.6 per cent; it is very low. There are still jobs out there which people are struggling to fill. We know that from our own situation, although we also know it is starting to get easier. I haven't got here today the 'by state' numbers, but we can get those for the committee, and we can get down into postal code activity in some areas as well, if you would like.

Answer:

In addition to the ABS labour market data, NAB Economics examines de-identified and aggregated data on the number of NAB customers accessing JobSeeker payments and other unemployment benefits. While a lagging indicator, this data has broadly moved in line with changes observed in the unemployment rate. Labour force activity is only available at a state level.



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NAB02QW

Disputes

- a. How many cases that arose during the period covered by the Hayne Royal Commission remain outstanding?
- b. How many cases has the bank had an involvement with the Australian Financial Complaints Authority (AFCA)? Please provide a time series for the past 10 years.
- c. How many of these cases remain outstanding?

Answer:

- a. There are no complaints which were raised with NAB during the period of the Hayne Royal Commission which are outstanding.
- b. Since 2013, NAB has had an average of 3,184 customer complaints per year that have been raised with AFCA or its predecessor. The split by year is available below. The period requested reflects volumes from two external dispute resolution (EDR) schemes: AFCA since its establishment on 1 November 2018 and before then the previous major EDR scheme (the Financial Ombudsman Service).

Calendar Year	Number of complaints to AFCA/FOS
2014	2,747
2015	2,321
2016	2,286
2017	2,260
2018	2,873
2019	3,889
2020	4,574
2021	4,394
2022	4,653
2023 (as at end of September)	4,047

This information is also publicly available from AFCA, covering the period since its establishment.

- c. There are currently 1,224 AFCA complaints open as of 11 October 2023.

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Risk management

- a. Please provide your most recent Prudential Standard CPS 220 Risk Management (CPS 220) report (even if redacted).
- b. Which consultant undertook the majority of the work?
- c. Please provide a high level summary of the most recent assessment of key financial and nonfinancial risks, for example, as a traffic light indicating the importance/likelihood of risk and organisational preparedness.

Answer:

- a. Due to the confidential and commercially sensitive nature of the information about NAB's risk practices contained in its CPS220 Risk Management report, NAB is unable to provide the Committee with a full or redacted copy of the report. We can confirm that the report assessed the adequacy, design and operating effectiveness of NAB's Risk Management Framework across the key themes of culture, governance, accountability, framework and risk reporting.
- b. As stated in Mr Dooley's response on 12 July 2023, NAB engaged KPMG for our 2021 external triennial review.
- c. Mr Dooley referenced NAB's major Risk Factors in his answer on 12 July 2023. Risk Factors are prepared on a semi-annual basis to comply with regulatory reporting requirements and are also published in the NAB Group's Annual Report. Noting that it is not possible to determine the likelihood of these risks occurring, the Risk Factors sets out the principal risks and uncertainties associated with the NAB Group.

As outlined most recently in NAB's half year financial results on 4 May 2023, below is a summary of some key material risks:

- **Strategic Risk:** Strategic initiatives may fail to be executed, may not deliver all anticipated benefits, or may otherwise change the NAB Group's risk profile. The NAB Group faces intense competition across the markets in which we operate, including from non-bank competitors, some of which are subject to a lesser regulatory environment.
- **Credit Risk:** Rising interest rates to combat persistent inflation and a decline in property market valuations may result in a deterioration in the NAB Group's credit risk profile in the short term through potential increases in defaulted loans. Other macro-economic, geopolitical, climate, other nature-related or social risks may adversely affect the NAB Group and pose a credit risk.
- **Market Risk:** Market declines and increased volatility impacting the value of financial instruments may result in the NAB Group incurring losses.
- **Capital Funding & Liquidity Risk:** The NAB Group is exposed to funding and liquidity risk if we are unable to raise short and long-term funding to support its ongoing operations, regulatory requirements, strategic plans, and objectives. The NAB Group relies on offshore wholesale funding to support its funding and liquidity position and periods of significant market volatility in particular may limit our access to this funding source.

- **Operational Risk** (including IT risk/cyber risk/privacy risk): Failure to keep technology systems up-to-date, or a physical or cyber-attack, where the NAB Group is unable to restore or recover systems and data in acceptable timeframes. This may result in operational disruption, regulatory enforcement actions, customer redress, litigation, financial losses, theft or loss of customer data, loss of market share, loss of property or information. The NAB Group collects, processes, stores and transmits large amounts of personal and confidential information through its employees, technology systems and networks.
- **Sustainability/ESG Risk:** Physical and transition risks arising from climate change, other environmental impacts and nature-related risks may lead to increasing customer defaults and decrease the value of collateral. Climate-related transition risks are increasing as economies, Governments, and companies seek to transition to low-carbon alternatives and adapt to climate change.
- **Conduct Risk:** The NAB Group is reliant on its employees, contractors and external suppliers acting in an appropriate and ethical way. A failure of the Group's conduct-related controls to accurately reflect relevant legal, regulatory or community expectations may adversely impact the NAB Group's reputation, financial performance and position.

The most recent Risk Factors document can be found [here](#). Updated information on NAB's Risk Factors will be published as part of NAB's full year financial results on 9 November.

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NAB04QW

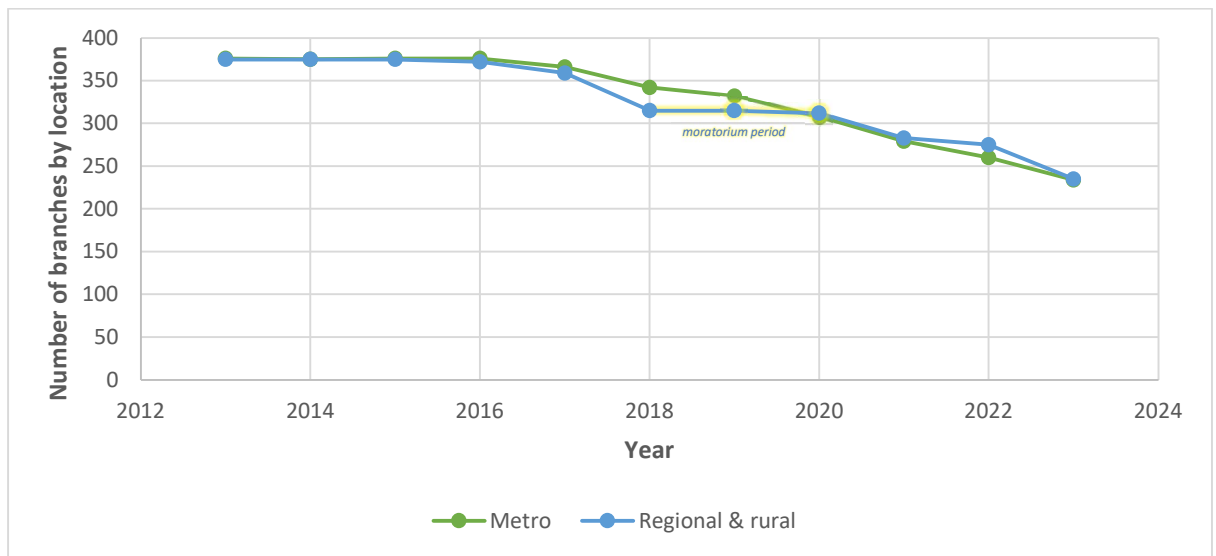
Branch closures

- a. What factors are taken into account when deciding how many and which bank branches to close?
- b. Does the bank consider the proportion of customers at the branch using online/digital banking?
- c. Does the bank take into account how many people in the area rely on interactions in the branch for non-transactional purposes?
- d. Does the bank's overarching efforts to reach net zero emissions factor into decisions around bank closures?
- e. Please provide a time series for the past 10 years of how many banks have been closed (and opened – i.e. for a net figure), broken down by metro, regional and rural.
- f. How many regional and rural areas are you aware of where your bank is the only branch presence?
- g. Did any of your branch closures result in no branch presence at all after the closure?

Answer:

- a. The decision to close any branch is made on a case-by-case basis, informed by local leaders and a number of factors including the usage of the branch, the types of transactions performed at the branch and volume of these transactions, the usage (and proximity) of alternative NAB branches or alternative banking options, and the impact that closing the branch would have on customers.
- b. Yes.
- c. Yes, however not all non-transactional interactions are able to be reliably measured. NAB takes this into account by considering the non-transactional interactions that are able to be measured (such as customer appointments), combined with input and advice from local leaders who are responsible for the branch's operations and are familiar with the customer interactions that take place.
- d. No. NAB does not close branches for the purpose of reducing its operational emissions footprint. Emissions reduction is not a consideration when making the decision to close a branch.
- e. The below chart and table detail NAB branches as at October each year, from 2013 to 2023. The ABS Remoteness Structure has been used to differentiate between metro, regional and rural. 'Major Cities of Australia' has been used to determine 'metro' sites. All other categories combined have been used to determine 'regional and rural' sites. The limited change in regional and rural branch numbers between October 2018 – October 2020, is due to a moratorium NAB introduced in October 2018, to not close a branch in a drought-declared area, while that area was drought-

declared. This was extended to cover all regional and rural branches in March 2019. This moratorium ended in early 2021.



Year	Metro	Regional & rural	Total
2013	376	375	751
2014	375	375	750
2015	376	375	751
2016	376	372	748
2017	366	359	725
2018	342	315	657
2019	332	315	647
2020	308	312	620
2021	279	283	562
2022	260	275	535
2023	234	235	469

- f. To the best of NAB’s knowledge, NAB is the only branch presence in 15 regional and rural towns. This represents 6.4% of our total regional branch network.
- g. Yes. However, in each of these instances, NAB customers continue to have access to banking services available through Australia Post’s Bank@Post service located in the same town.

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NAB05QW

Employment practices

- a. Please provide a times series over the past 10 years of total employment at the bank.
- b. What are the particular growth areas, for example cyber security, anti-money laundering and counter-terrorism financing (AML/CTF)?
- c. What proportion of staff are outsourced overseas? Note: This does not relate to a retail banking presence in another country, rather the conduct of specialised services. Please provide a time series over the past 10 years:
 - i. total staff outsourced overseas
 - ii. by function (e.g. call centres, back office data analysis, cyber security).
- d. How does the bank manage risks relating to outsourcing?

Answer:

- a. Please see below. Numbers for each financial year are as at 30 September, or 31 March for half year 2023 given NAB reports on a 30 September financial year basis.

Year	Full time equivalent (FTE) staff
FY13	42,164
FY14	41,420
FY15	41,826
FY16	34,263
FY17	33,422
FY18	33,283
FY19	34,370
FY20	34,944
FY21	33,275
FY22	35,558
HY23	36,963

- b. One area of growth is the addition of 50 full time equivalent (FTE) staff to NAB's investigations and fraud team of greater than 450 in the six months to the end of March 2023, including those handling scams and fraud enquiries.

Some further information about NAB's staffing numbers for the financial year ending 30 September will be in its full year financial results on 9 November.

- c. NAB has offices globally including in Paris, London, New York, Tokyo, Singapore, Shanghai, Delhi, Ho Chi Minh City and Hanoi. Excluding NAB's subsidiary the Bank of New Zealand, more than 90 per cent of NAB's total workforce is based in Australia.

Over several years, NAB has also been insourcing our workforce, bringing inhouse skills that NAB had previously outsourced to third party vendors. In six years, this has shifted from

around 70 per cent of our technology workforce outsourced, to around 35 per cent outsourced.

Building a global workforce improves NAB's ability to serve and support customers at times that suit them, capitalising on multiple global time zones to provide extended hours of service. It also helps NAB be more efficient, reducing hand-offs to third parties and allowing NAB to run our operations end-to-end.

On 1 June 2022, NAB acquired Citigroup's consumer business in Australia. As part of that acquisition, around 1,350 offshore staff in the Philippines and India support Citi's consumer business in Australia as part of a transitional service agreement.

- d. Material Outsourcing is subject to APRA's Cross-Industry Prudential Standard (CPS) 231 - Outsourcing. NAB manages compliance to this prudential standard through a documented compliance plan and the establishment and operation of controls which undergo annual assessment.

NAB's outsourcing risk management activities include:

- Initial risk assessments of the proposed outsourcing initiative.
- Selection screening and due diligence against outsourcing providers prior to contract execution.
- Independent assurance by the NAB Internal audit function prior to contract execution.

Once NAB establishes an outsourcing arrangement, it is allocated an accountable Executive within the NAB Group to manage the relationship. Relationship management includes monthly and quarterly governance with the supplier performed to monitor both contractual performance and risk management to ensure these activities are performed to the level expected under CPS231.

NAB establishes both business continuity plans that consider the outsourced activity, and contingency plans against each supplier to identify strategies for short term or prolonged disruption and has disengagement protocols in place.

NAB continues to evolve its outsourcing practices in line with upcoming requirements driven by CPS230 effective July 2025.

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NAB06QW

Fraudulent activities

- a. How many scammers have been found to hold host accounts with your bank and its subsidiaries in the past 12 months?
- b. When an account sends money to a new payee, does your bank check if that payee has ever received money from any other accounts? If not, why not?

Answer:

- a. Accounts which are used by criminals to facilitate scams, fraud and other forms of financial crime are referred to as mule accounts. Mule accounts enable financial crime as they allow criminals to protect their identity and distance themselves from the criminal activity whilst retaining control over the illicit funds. There are several different types of mule accounts including:
 - Accounts established using synthetic identification which involve an entirely fictitious, non-existent identity;
 - Accounts established using stolen identity information;
 - Accounts operated by customers who sell or transfer control of their account to criminals once they no longer require it, e.g. foreign students leaving Australia;
 - Accounts operated by customers who allow, either wittingly or unwittingly, their accounts to be used by criminals in exchange for a commission or other benefit; and
 - Accounts operated by customers who are themselves scam victims or in some way vulnerable and who are socially engineered or coerced by criminals into allowing their accounts to be used.

In the financial year ending September 2023, NAB and its subsidiaries referred approximately 3,990 mule accounts for exit.

- b. Information about first time payments to a new payee is one of the factors we consider, in combination with other indicators, when assessing payments for fraud and scams.

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NAB07QW

In April 2023 the Australian Competition and Consumer Commission (ACCC) called on businesses 'to be vigilant and implement effective monitoring and intervention processes to prevent scammers using their services and stop them when they do'.

- a. What has the bank done since April 2023 in response to the ACCC's calls?
- b. Do you think it is appropriate for AFCA to continue to say* banks do not have a duty to monitor transactions when the ACCC has called for action from key sectors like banks?

*As outlined in an AFCA letter, dated 3 July 2023, related to a customer complaint about scam activity.

Answer:

- a. Prior to the ACCC's comments in April 2023, NAB had developed and implemented a comprehensive enterprise scam strategy. We have already delivered over 30 fraud and scam initiatives. Specifically, since April 2023, NAB has implemented the following initiatives:
 - On 31 March 2023, NAB introduced a real time payment alert which intervenes in the internet and mobile banking payment process when certain fraud and scam indicators trigger on some payments. Since the introduction of this initiative, NAB has sent out 455,000 alerts. On average around \$220,000 in payments are abandoned each day avoiding \$40 million in potential scam losses since implementation.
 - In May 2023, NAB introduced a new customer scam form which was rolled out across NAB branches nationally. This provides our bankers with questions to ask customers where red flags may be evident and specifically designed to detect and disrupt payments to scammers based on the most likely scam typology. This initiative has been successful in disrupting payments to scammers.
 - On 7 July 2023, NAB announced the removal of links from NAB text messages sent to customers; and
 - On 17 July 2023, NAB announced that we would block payments to high fraud risk merchants including some cryptocurrency exchanges.
 - Additionally, in December 2022, NAB worked with telecommunications providers to place bank phone numbers on the 'Do Not Originate' list and add protections to reduce scam messages appearing in legitimate bank test message threads.
- b. We understand that AFCA's statement was made in the context of a specific complaint and was outlining the current legal position for banks in Australia. However, AFCA goes on to state more broadly that it expects banks to keep to accepted standards of good industry practice. The ACCC's call to action from banks and key sectors is in the context of an absence of regulatory obligations and in light of it establishing the National Anti-Scam Centre.

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NAB08QW

Since the Economics Committee's public hearings in July 2023, consumer groups have repeated their calls for a mandatory code requiring banks to refund funds lost to scammers in certain circumstances.

- a. Has NAB considered the implementation of a voluntary code for refunds prior to, or since, the public hearings?
- b. If so, why has NAB not implemented a voluntary code for refunds?

Answer:

- a. NAB supports the development of codes to improve standards and provide clarity and consistency in customer outcomes and bank obligations in relation to scam transactions. For these codes to be effective, a whole-of-economy approach is required to be adopted to enable appropriate accountability for all sectors including but not limited to banking, telecommunications, social media platforms and consumers. NAB has previously engaged with stakeholders on a potential Scams Code of Practice and looks forward to further engagement with Government on release of the draft Code.
- b. In the instance where a customer has been the victim of a scam and lost funds, NAB takes a case-by-case approach to assess and review the matter based on a range of factors. Amongst these factors, NAB considers the individual circumstances of each case, including whether the transaction in question was authorised by the customer as well as NAB's compliance with regulatory obligations. If NAB has not met these obligations a customer will be refunded.

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NAB09QW

When considering lending to businesses who are seeking loans to develop renewable energy projects, such as wind and solar fields, throughout each proposal's construction, operable lifetime and end of life remediation, do you consider the:

- a. environmental impact?
- b. impact on wildlife?
- c. health impacts on residents in close proximity to each proposal?

Answer:

NAB considers applications for finance on a case-by-case basis as part of NAB's credit risk and due diligence processes. This takes into account factors including a potential borrower's capacity to repay and the materiality of environmental, social and governance (ESG) factors. This is in addition to the size, type, tenor and complexity of a transaction being considered.

The ESG factors include environmental impact, impact on wildlife and community impacts as part of our standard assessment process where relevant and appropriate.

Additionally, NAB maintains a *High Risk ESG Sectors and Sensitive Areas list* for sectors/activities that may have a higher potential risk of ESG issues due to the nature of the activities they undertake. During customer onboarding, and at regular intervals, customers in these sectors or activities may be subject to additional review/due diligence which further considers underlying ESG risks, as well as regulatory and legislative obligations and complexity.

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NAB10QW

Assessing lending for renewable energy projects

- a. Do you consider the carbon footprint in the manufacture and disposal of solar panels and wind turbines when assessing the suitability of a renewable energy project?
- b. Do you investigate the source of rare earth minerals used to manufacture solar panels, wind turbines and batteries (used in electric vehicles and commercial and domestic energy storage)— taking into account potential abuses of human rights and child labour practices, which are commonplace in many developing nations—when lending to renewable energy projects which utilise solar energy?

Answer:

NAB is focused on doing business in a responsible manner. This includes how NAB manages its operations and financing activities. NAB's support for human rights is reflected in relevant bank policies and procedures, risk assessment processes, due diligence and training programs as part of our overall approach to environmental, social and governance (ESG) risk management.

In 2023, NAB commenced an in-depth review of modern slavery risk in the renewable energy sector. As part of the review process, NAB engaged several relevant customers and referred to a range of external guidance, advice from NAB's internal ESG-related experts and other external sources and experts. Progress to date includes a portfolio review to confirm high risk jurisdictions and activities are correctly identified, and engagement with external experts to help identify where we can improve frameworks, guidance and risk management practices.

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NAB11QW

Project investment

- a. Have you invested, or considered investing in, the proposed 'Sun Cable' project in northern Australia and/or the Chalumbin Wind Farm project? If so, was any consideration given to the long-term impact that such a large-scale project would have on the local ecosystem?
- b. Have you invested, or would you consider investing in, projects to build out high-voltage transmission lines across Australia, in response to the retirement of fossil fuel power stations? If so, has an assessment been made on the ecological impact of these projects and what was the outcome?
- c. Do you apply the same rigorous standards used to review applications for investment in proposals utilising fossil fuel to renewable energy projects?

Answer:

Due to privacy considerations, NAB does not comment about specific customers or transactions, whether or not they are current, past or potential customers or transactions.

More generally, NAB considers applications for finance on a case-by-case basis as part of NAB's credit risk and due diligence processes, which consider a range of factors, including a potential borrower's capacity to repay and the materiality of environmental, social and governance (ESG) factors. This is in addition to the size, type, tenor and complexity of a transaction being considered.

The ESG factors include environmental, ecosystem, and community impacts as part of our standard assessment process where relevant and appropriate.