



Commonwealth Bank

Open Advice Review program

Second Report

Prepared by Promontory

29 May 2015

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Promontory Financial Group Australasia (Promontory) has been engaged by the Commonwealth Bank Group (Bank) as an Independent Expert to oversee the Bank's Open Advice Review program (Program). Promontory is responsible for monitoring, reviewing and reporting on the Program and its progress. This Report provides an update on the Program's implementation since the release of our Initial Report in December 2014, and includes the findings of our monitoring and review activities over this period.

A legal representative of the Bank reviewed a draft of this Report to identify any information subject to a claim for legal professional privilege. There were no such instances identified. Promontory also provided a draft of the Report to the Bank for the purposes of identifying any errors. Promontory retained final judgement on all views and information in this Report.

Promontory's role in the Program is limited and may not incorporate all matters that might be pertinent or necessary to a third party's evaluation of the Program or any information contained in this Report. No third party beneficiary rights are granted or intended.

Promontory is neither a law firm nor an accounting firm. No part of the services performed constitutes legal advice, the rendering of legal services, accounting advice, or the rendering of accounting or audit services.

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Abbreviations

ARDB	Advice Remediation Database
ARp	Advice Review program
ARp Solution	Advice Review program Solution
ASIC	Australian Securities and Investments Commission
CBA/Bank	Commonwealth Bank of Australia (Group)
CAT	Case Assessment Tool
CFPL	Commonwealth Financial Planning Limited
CRM	Customer Relationship Management
ESG	Executive Steering Group
FOS	Financial Ombudsman Service
FWL	Financial Wisdom Limited
ICA	Independent Customer Advocate
Initial Report	Promontory Initial Report (published 19 December 2014)
Independent Panel	Independent Review Panel
IT	Information Technology
OAR	Open Advice Review
Pilot	Pilot Program
Program	Open Advice Review program
PSG	Program Steering Group
Promontory	Promontory Financial Group Australasia
Report	Second Report
Review Period	1 September 2003 to 1 July 2012

1. Background

The Commonwealth Bank Group's (CBA or Bank) Open Advice Review program (OAR program or Program) is a review and remediation program designed to identify and compensate for poor financial advice that may have been provided to customers of Commonwealth Financial Planning Limited (CFPL) and Financial Wisdom Limited (FWL) between 1 September 2003 and 1 July 2012 (the Review Period). Where customers suffered financial loss as a result of poor advice from CFPL or FWL advisers, the Program aims to put customers back in the position they would have been in had they received suitable advice. The Program aims to be transparent, and aspires to deliver fair and consistent outcomes to customers.

The OAR program commenced on 3 July 2014. Customers wishing to participate in the Program have until 3 July 2015 to register their interest.

On 10 August 2014, CBA appointed Promontory Financial Group Australasia (Promontory) as the Independent Expert for the Program. Promontory's role as Independent Expert is to:

- monitor the progress of the Program;
- review a sample of cases in the Program, and assess whether cases are being reviewed in a manner that is consistent with the Program's documented processes and objectives; and
- make its findings, along with statistics about the Program, available to the public through periodic reports.

Promontory's role in the Program aims to provide transparency and a level of assurance to customers and others that the Program's processes are implemented fairly and consistently.

On 19 December 2014, Promontory issued its Initial Report on the Program – focusing primarily on the design of the Program and the steps that were taken to implement it.¹

This Second Report (Report) provides an update on the Program since our Initial Report. It provides an overview of further initiatives that have been taken by the Bank to support the Program's implementation, and an update on the progress that has been made in assessing cases in the Program. The Report also sets out findings from our review of cases that have exited the Program prior to assessment, and cases that were assessed as part of the Pilot Program (Pilot).

In all aspects reported, both with respect to the Program statistics and review of processes, we have exercised reasonable due diligence to verify and validate facts and interpretations.

Promontory's next report is scheduled to be published in September 2015. Our next report will provide a further update on developments in the Program up to 31 August 2015.

Promontory acknowledges the co-operation that CBA has provided us in preparing this Report, and in responding to our requests for information.

¹ Promontory's Initial Report is available at: <https://www.commbank.com.au/content/dam/commbank/about-us/who-we-are/open-advice-review/promontory-initial-report.pdf>

2. Summary of findings

2.1. Program implementation

Since the time of our Initial Report, the Bank has continued to invest in a number of important areas of the Program's infrastructure to further support the implementation of the Program.

2.1.1. People and governance

The number of people who have been recruited to the Bank's Advice Review program (ARp) team² had grown to 496 full-time equivalent resources as at 24 April 2015 (up from approximately 250 full-time equivalent resources as at the end of November 2014). The majority of resources within the ARp team continue to reside within the Customer and Information Management streams, which are responsible for the assessment and retrieval of customer advice files, respectively. Both these streams have significantly increased their headcount over the past few months, driven by the increased demand for Assessment Managers and Review Managers (in the case of the Customer stream), and the ongoing retrieval and collection of relevant customer advice files across the country (in the case of the Information Management stream).

The main executive and board committees responsible for the Program noted in our Initial Report have continued to provide oversight and strategic direction over the Program's implementation.

2.1.2. Systems and tools

Ongoing enhancements to the Program's IT infrastructure, tools and processes have been implemented since the time of our Initial Report. The Bank has made refinements to the databases used in the Program; built new tools and applications to help better manage the work undertaken by the Bank's case assessment and file retrieval teams; and refined the compensation model developed for calculating offers of compensation to customers in the Program who have been assessed as having received poor financial advice. A more systematic and centralised approach to the retrieval of customer files has also been implemented since early 2015, which involves an improved system of cataloguing all customer advice files residing at the Bank's branches, document archiving facilities and other locations across the country.

2.1.3. Program awareness and changes to registration

Following on from the Bank's commitment in November 2014, the Bank also implemented its extended customer contact awareness campaign in early 2015 through the mail-out of letters about the Program to nearly 350,000 households. The mail-out targeted all customers who held a product issued by Colonial First State, CommInsure or CommSec as at January 2015, and had received advice from CFPL during the Review Period. The letters invited customers who had any concerns about the advice they received from CFPL to contact the Bank so that they could be sent additional information about the Program.

² The ARp team is responsible for implementing both the OAR program and the Bank's remediation activities associated with CFPL's and FWL's varied licence conditions agreed with the Australian Securities and Investments Commission (ASIC) in 2014.

In addition to the extended customer contact awareness campaign conducted through the mail-out, the Bank has continued to raise awareness of the Program through other initiatives. These initiatives have included ongoing digital advertising, additional advertising in metropolitan, rural and regional newspapers across the country, and the further distribution of Program information packs to selected community groups. In February 2015, the Bank also wrote to each FWL practice principal requesting that they communicate the details of the OAR program to their customers.

Since the end of 2014, there have been relatively few changes to the Program's overall design features.³ A change that has occurred relates to the Program's registration process where, from late January 2015, customers who have wished to express interest in the Program and request additional information about the Program have been able to do so more easily. This change occurred as a result of the extended customer contact awareness campaign conducted in early 2015, where customers who were sent a letter were provided a unique code that they could use to readily view their details and confirm their interest in the Program. As a consequence of this change, the Bank also made a number of minor changes to its classification of cases "registered" in the Program (discussed further in Sections 3.3 and 5).

Section 3 of this Report provides further details about the various steps and initiatives that have been undertaken by the Bank to support the Program's implementation since the end of 2014.

2.2. Pilot Program

As set out in our Initial Report, CBA commenced a Pilot in November 2014 to test and refine the assessment processes of the Program prior to full implementation. The Pilot involved a review of 60 cases jointly selected by CBA and the Independent Customer Advocates⁴ (ICAs), against a preliminary set of assessment guidelines and methodology developed by the Bank. Each customer involved in the Pilot participated on a voluntary basis and was represented by an ICA.

2.2.1. Pilot outcomes

The first case assessments under the Pilot were completed by the Bank at the end of December 2014, with additional case assessments completed progressively over the first quarter of 2015. By 20 March 2015, assessment outcome letters had been issued to all but one of the 60 cases in the Pilot, with the last remaining case having been issued an assessment outcome letter on 17 April 2015.

As at 30 April 2015, the Bank had offered compensation to 11 out of the 60 cases in the Pilot. A further two cases were assessed as having involved poor advice, but where no compensation was offered due to the Bank's assessment that no financial loss was suffered by the customers as a result of the poor advice. The remaining 47 cases in the Pilot were assessed by the Bank as having received appropriate advice (no compensation payable).

³ We note that, although the overall design features of the Program have remained largely unchanged, the underlying systems used to support the Program's implementation have been subject to further refinements since the start of 2015. These refinements are discussed in further detail in Section 3 of this Report. Changes that have been made to the underlying case assessment process (following implementation of the Pilot Program) are discussed separately in Section 4 of this Report.

⁴ The three law firms appointed as ICAs by the Bank to support individual customers through the Program are Maurice Blackburn, Shine Lawyers, and Slater and Gordon.

Based on the assessments determined by the Bank, a total of \$216,611 in compensation had been offered to customers participating in the Pilot as at 30 April 2015. Of this amount, \$49,702 in compensation had been accepted by customers and subsequently paid by the Bank.

2.2.2. Lessons and findings from the Pilot

As noted in our Initial Report, CBA's decision to implement a Pilot for the OAR program was driven, in part, by the unique features and complexities associated with the Program's design. The Bank recognised that, given the open nature of the Program and long Review Period involved, the Bank's processes for assessing cases in the Program were likely to benefit from further testing and refinement prior to full implementation. The Bank saw the Pilot as an opportunity to identify areas where it could enhance its assessment processes prior to full implementation, so as to facilitate more consistent, reliable and traceable outcomes under the full Program.

As the Pilot progressed, the Bank identified numerous opportunities to enhance its assessment processes based on the experience gained in assessing the 60 cases. In particular, the Bank identified the need for its assessment processes to be more structured and traceable so that, once implemented at scale, the Program would produce fair and consistent outcomes more efficiently.

To account for the lessons it identified in the Pilot, the Bank worked on a number of enhancements to the Program's assessment processes. These enhancements centred on the development of a more structured assessment framework referred to by the Bank as the "Advice Review program Solution" (ARp Solution). The ARp Solution incorporated a revised assessment methodology (incorporating more detailed guidelines for the Bank's assessment team), and the development of a Case Assessment Tool (CAT) that facilitated more structured decision-making.

Promontory's role in the Pilot was to oversee the implementation of the exercise and report on the outcomes in this Report. In performing our role, we were conscious of the developmental nature of the Pilot and focused our review on ways in which the Bank's assessment processes could be further enhanced to achieve the Program's objectives. We also reviewed the Bank's assessment of the 60 cases in the Pilot to understand how the preliminary assessment guidelines and methodology were applied, and how this might impact on our review processes going forward.

Our main observations on the Pilot were the need for the Bank to develop more detailed guidance regarding the way certain factors were to be assessed, and the need for greater traceability within the Bank's recorded assessment outputs. Based on these observations, we advised the Bank of the need to make material refinements to its assessment process, so that the outcomes and judgements made by the Bank's assessment team would be more transparent to us in the full Program.

The Bank accepted our observations and findings from the Pilot, and noted that many of the observations we identified were similar to those raised internally within the Bank as it progressed through the Pilot. The Bank provided us with the work that it had undertaken to develop the ARp Solution, including the refinements made to the underlying assessment guidelines and methodology. Promontory believes that the changes made as part of the ARp Solution represent material improvements to the assessment processes that were applied in the Pilot. We believe the improvements should help deliver outcomes that are more transparent to us and consistent for customers in the Program.

Given some of the observations that Promontory identified in the Pilot, and the subsequent improvements that have been made to the Bank's assessment processes, the Bank has indicated that it will undertake a further review of all cases in the Pilot where we found it difficult to verify adherence to the Program's documented

processes. This review is consistent with the safeguards introduced as part of the Pilot, and will provide additional assurance to participants in the Pilot that they were not disadvantaged from having participated.

Section 4 of this Report provides further details of the implementation and outcomes of the Pilot, as well as our findings.

2.3. Program statistics

Following the extended customer contact awareness campaign that was initiated in early 2015, there has been a substantial increase in the number of cases that have expressed interest in the Program. As at 30 April 2015, the total number of expressions of interest in the Program grew from approximately 4,700 (as at 15 December 2014) to 22,435. Of the 22,435 cases, approximately 91% of these had been sent an information pack from the Bank as at 30 April 2015.⁵

In our Initial Report, Promontory noted that the Bank had yet to commence formal assessment of cases in the Program beyond those in the Pilot. Since this time, the Bank has commenced case assessments for 346 cases, and issued assessment outcomes in 208 of these cases as at 30 April 2015 (including the 60 cases assessed as part of the Pilot). Table 2.1 sets out the number of cases that had progressed through to various stages of the Program (beyond expression of interest) as at 30 April 2015.

Table 2.1: Number of cases progressed through the Program

Case progress	Total as at 30 April 2015
Registration stage	7,237
<i>of which:</i> progressed through to Assessment stage	346
<i>of which:</i> progressed through to Consideration of Assessment Outcome stage ⁶	208

The Bank had offered compensation to 28 of the 208 cases (13%) that had been issued an assessment outcome as at 30 April 2015. The cases in which compensation was offered were assessed by the Bank to have involved poor advice, incorrect implementation of advice, or incorrect fees that resulted in financial loss for the customer. In 174 cases (84%), the Bank assessed the advice to be appropriate and consequently made no offer of compensation. The remaining six cases (3%) were assessed by the Bank as having involved poor or incorrectly implemented advice, but where that poor or incorrectly implemented advice was assessed to have not resulted in the customer suffering financial loss (and hence no offer of compensation was made).

We note that the figures and percentages noted above relate only to assessment outcomes issued by the Bank as at 30 April 2015; they do not reflect the possibility that some of these cases may change

⁵ The remaining 9% of cases that had not been sent an information pack as at 30 April 2015 included cases that had only recently expressed an interest in the Program, cases that had withdrawn from the Program (without requesting an information pack), and cases where the Bank was still in the process of obtaining further contact details to send an information pack. A more detailed breakdown is provided in Section 5.2 of this Report.

⁶ This figure includes the 60 cases that were assessed as part of the Pilot.

classification after 30 April 2015 if a customer successfully counters the Bank's assessment outcome (as allowed for in the Program's design). Of the 208 cases where an assessment outcome had been issued as at 30 April 2015, only 22 had reached a final decision regarding their assessment outcome. The remaining 186 cases remained under review by the customer or, in cases where the customer had made a counter-offer or counter-assessment to the Bank, remained under review by the Bank. Table 2.2 provides a breakdown of the status of the 208 cases that had progressed through to the Consideration of Assessment Outcome stage as at 30 April 2015.

Table 2.2: Status of cases progressed through to the Consideration of Assessment Outcome stage

Case status	Total as at 30 April 2015
Offer of compensation made by Bank	
Offer accepted by the customer	5
Offer under review by the customer	19
Offer rejected by the customer and counter-offer made to the Bank	4
No offer of compensation made by Bank	
Customer subsequently withdrew from the Program	17
Assessment outcome under review by the customer	144
Assessment outcome rejected by the customer and counter-assessment made to the Bank	19
TOTAL	208

Based on the assessment outcomes issued as at 30 April 2015, the Bank had offered total compensation of \$562,513 (including cases that were assessed as part of the Pilot). Of this amount, the Bank had made total compensation payments of \$79,702. The remaining \$482,811 in compensation that had been offered but not yet paid as at 30 April 2015 related to cases where:

- the offer of compensation was still under review by the customer or the Bank (offers amounting to \$248,307); and
- the offer of compensation had been accepted by the customer, but where payment had yet to be processed by the Bank as at 30 April 2015 (offers amounting to \$234,504).⁷

More detailed statistics about the Program can be found in Section 5 of this Report.

⁷ The Bank has confirmed that payments related to these offers were made in May 2015.

2.4. Sample case reviews

Promontory will be reviewing a sample of cases at different stages of the Program to determine if customers have had their cases assessed in a manner that is materially consistent with the Program's documented processes. As part of this sample review, Promontory will also consider whether cases have been handled in a manner that is consistent with the Program's objectives.

2.4.1. Cases reviewed

Given the focus on completing the assessment of the 60 cases in the Pilot over the past few months (which Promontory oversaw), and the relatively limited number of cases that have progressed through the Program's Assessment stage, Promontory's sampling to date has focused only on cases in the Pilot, and cases that have exited the Program prior to assessments being completed (i.e., case exits at, or prior to, the Program's Registration stage). Over coming months, Promontory will commence its sample review of cases that have progressed through the Program's Assessment stage, and will report on our findings from this sampling in our next periodic report.

Beyond the 60 cases that we reviewed in the Pilot, the population of cases that were the subject of our review for this Report comprised:

- 235 cases of customer withdrawals that exited the Program at, or prior to, the Program's Registration stage; and
- nine cases that were deemed ineligible by the Bank since the Program's commencement.

Promontory applied a highly conservative approach by assessing all cases in these populations (i.e., 100% sampling). We expect that, as the Program progresses and we gain greater comfort with the implementation of the Bank's processes, we will be able to sample less than 100% of cases in these categories.

2.4.2. Sample findings

From our review of the 235 cases of customer withdrawals identified by the Bank as at 30 April 2015, we found evidence in the vast majority of cases (195) that verified a customer's request to opt-out of the Program. We found a further 30 cases that could be reasonably classified as "non-genuine", and eight cases that were withdrawn from the Program after referral of the case to the Bank's internal complaints handling department. In all these cases, we identified no material concerns with the exit of these cases from the Program.

In two of the cases identified as opt-outs by the Bank, we were unable to verify from the information we reviewed that the customer had elected to withdraw from the Program. In light of our findings, the Bank has attempted to contact each of the customers concerned to confirm whether they wish to remain in the Program or opt-out.

We also found from our review of the 235 customer withdrawal cases that only 31% of these had been sent written confirmation of their withdrawal from the Program as at 30 April 2015. Of the remaining cases, 14% had confirmation letters pending as at 30 April 2015, and a further group (including non-genuine cases and customers who had requested no further contact from the Bank) did not require written confirmation. That left approximately 40% of cases identified by the Bank as having withdrawn from the Program that had not received written confirmation of their withdrawal as at 30 April 2015. The Bank has indicated that, to ensure

consistency in the way opt-out cases are handled, written confirmation will be sent to the remaining (genuine) cases by 5 June 2015.

In the nine cases deemed ineligible by the Bank as at 30 April 2015, we identified no material concerns about the exit of these cases from the Program. In one of the cases, however, the Bank had, as at 30 April 2015, yet to send a written confirmation confirming ineligibility. The Bank has indicated that written confirmation for this case was sent in May 2015.

Section 6 of this Report provides further details of our sample findings and approach, including the approach that we will be implementing for future cases that progress through the Assessment stage.

3. Further steps taken to implement the Program

Since our Initial Report, the Bank has continued to invest in a number of important areas of the Program’s infrastructure to further support the implementation of the Program. This section provides an overview of some of the additional steps that have been taken, including changes to the people, governance, systems and communications supporting the Program’s implementation. This section also provides a brief overview of some changes that have been made to the Program’s registration process since our Initial Report.

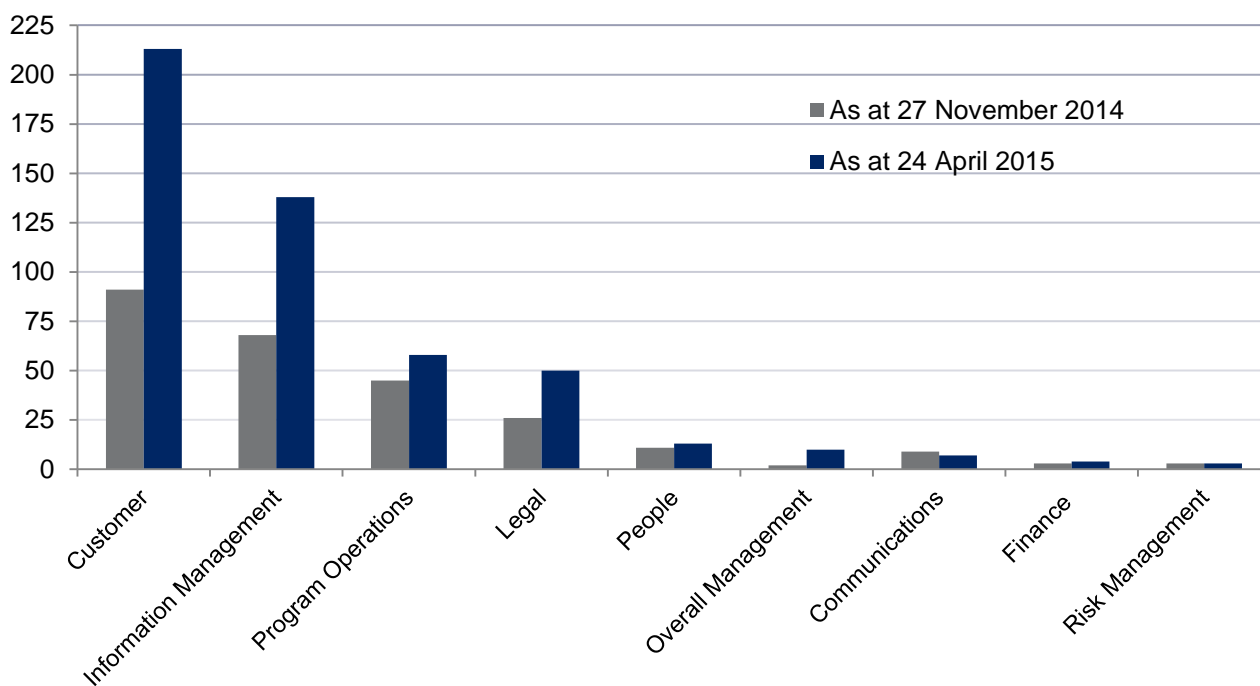
3.1. Program infrastructure

3.1.1. People

In our Initial Report, Promontory noted that the Bank had established a dedicated team of approximately 250 members to work on the OAR program and remediation processes related to CFPL’s and FWL’s varied licence conditions agreed with ASIC in 2014. The ARp team, which resides within CBA’s Wealth Management division, comprised a number of work streams responsible for various aspects of the remediation process across both the OAR program and varied licence conditions.

During the course of 2015, additional recruitment of resources has occurred across most ARp work streams. As at 24 April 2015, there were 496 members in the ARp team on a full-time equivalent basis. Figure 3.1 below provides an overview of the number of team members across each of the various streams. The majority of these team members (approximately 80%) are employees or contractors of CBA, with the remainder comprising professionals sourced from external service providers.

Figure 3.1: Number of ARp team members by Program stream



As Figure 3.1 illustrates, the Customer and Information Management streams continue to account for the most resources in the ARp team. Recruitment efforts since the start of 2015 also focused most heavily on these streams, primarily reflecting:

- in the case of the Customer stream, the ongoing addition of Assessment Managers and Review Managers to help with case assessments following the completion of the Pilot,⁸ and
- in the case of the Information Management stream, the addition of resources to implement a more comprehensive and efficient process of cataloguing and collecting all customer advice files across the country.⁹

The Bank continues to undertake background and probity checks for new team members joining the ARp team, including the requirement for individuals to sign a deed disclosing any potential conflicts of interest.

Training and continuing professional development requirements are also set and monitored across the various streams within the ARp team, with higher requirements applying to the Program's Assessment Managers. A range of training initiatives – both specific to certain functions and, more generally, across the whole ARp team – continue to be conducted. This includes training in relation to new Information Technology (IT) systems; customer experience and relationship management training; general on-boarding; specific ASIC Regulatory Guide 146 training plans for Assessment Managers¹⁰; and general Program updates from the Program's leadership.

3.1.2. Governance

There have been no major changes to the governance structure supporting the OAR program since our Initial Report in December 2014. The main executive and board committees responsible for providing oversight and strategic direction over the Program's implementation as noted in our Initial Report remain unchanged. A diagram summarising the key components of the Program's governance structure is set out in Figure 3.2.

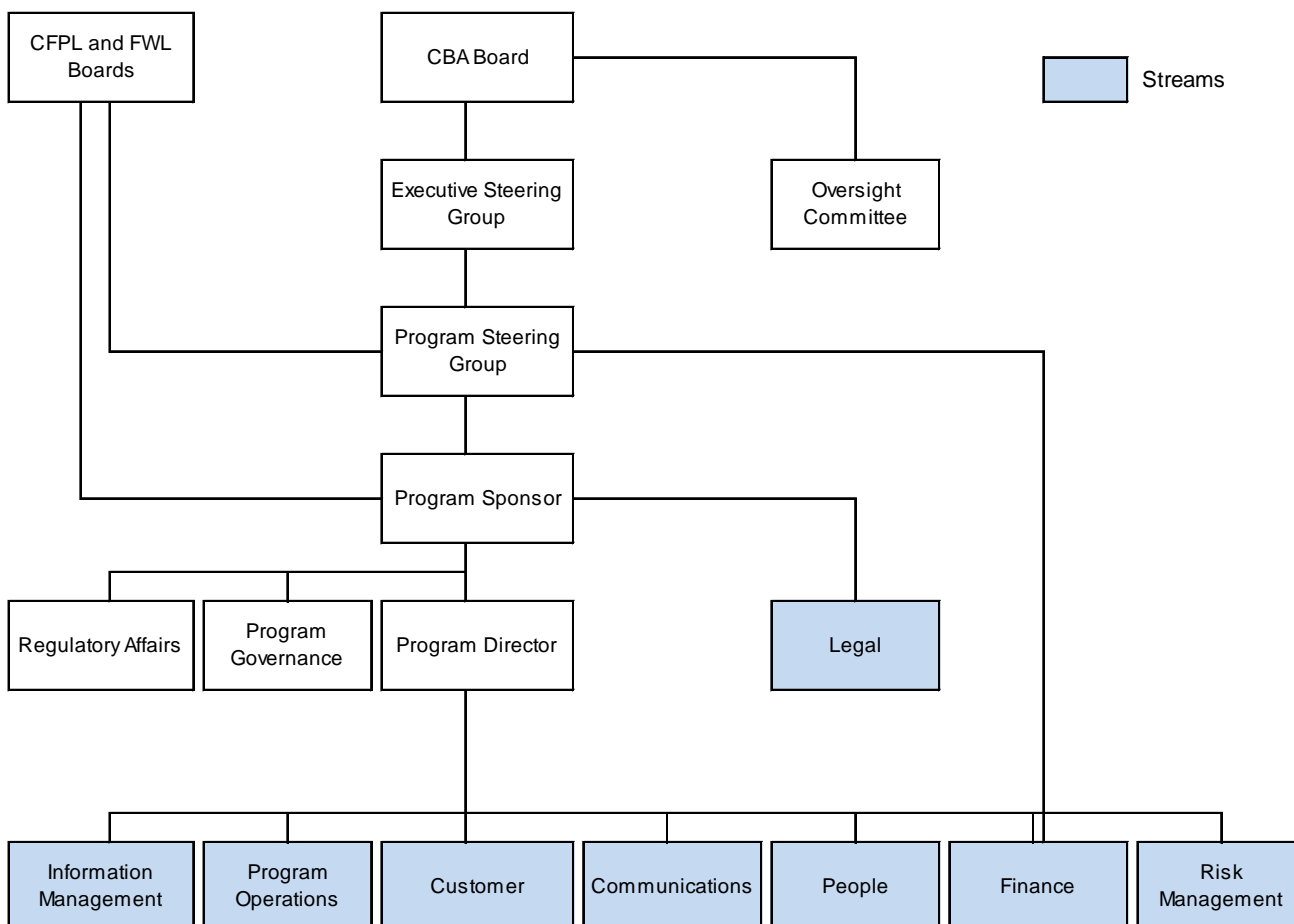
One change that has been introduced in recent months is the creation of a dedicated Regulatory Affairs department into the Program's governance structure. This department is responsible for coordinating, liaising and managing the Bank's affairs with the Independent Expert for the OAR program (Promontory), as well as the Independent Compliance Expert in relation to CFPL's and FWL's varied licence conditions agreed with ASIC (KordaMentha Forensic).

⁸ Assessment Managers are responsible for reviewing customer cases and providing a first-round assessment of the appropriateness of advice received. Review Managers are responsible for communicating and guiding customers through their assessment outcomes, once case assessment begins.

⁹ Section 3.1.4 below provides further details around the initiatives taken to improve customer file retrievals in the Program.

¹⁰ Assessment Managers will be required to meet relevant ASIC Regulatory Guide 146 minimum requirements for provision of personal advice, even though they do not provide advice to customers.

Figure 3.2: Program Governance Structure



Ongoing reporting of the Program’s progress and related issues to the Program Steering Group (PSG), Executive Steering Group (ESG), and Boards of CBA, CFPL and FWL have continued throughout 2015. The parent CBA Board has been updated on the Program three times this year (in February, March and April) while a Board oversight committee has also met on several occasions in 2015.¹¹ The PSG and ESG continue to convene on a regular (fortnightly) basis, while the CFPL and FWL Boards receive updates on the Program on a monthly basis (and when otherwise required).

3.1.3. IT systems and tools

In our Initial Report, Promontory noted a number of the initiatives the Bank had undertaken in relation to the systems and databases used to support the Program’s implementation. In 2014, these initiatives focused

¹¹ The Oversight Committee is a sub-committee of the parent CBA Board, is headed by the Chairman of the CBA Board and includes three other directors from the CBA Board.

largely on the development and implementation of scalable and secure systems for dealing with the Program's registrations (including the matching of registration data to information in the Bank's other systems), information and document management, and customer relationship management (CRM).

Over the course of 2015, the Bank has continued to make investments into its IT infrastructure and support applications to facilitate the Program's implementation. These enhancements have included:

- the development and release of a consolidated Advice Remediation Database (ARDB) for storing all customer and case data used in the Program from December 2014;¹²
- the development and rollout of a database to manage the mail-out of letters regarding the Program to CFPL customers in January and February 2015, as part of the Program's extended customer contact awareness campaign (refer to Section 3.2.1 below);¹³
- greater interaction and connectivity between ARDB and the Program's CRM and advice review applications in March 2015;
- the on-going development and use of a "Catalogue and Collect" software tool that assists the Program's file retrieval team with more efficient identification and collection of customer advice files (refer to Section 3.1.4 for further details);
- the rollout of a secure, third-party electronic data storage facility for distributing relevant documents to the Program's independent parties; and
- the migration of the Program's previous document repository onto a new platform that is aligned with the Bank's platform for storage of document images (completed in April 2015).

Since the end of 2014, the Bank has also spent considerable effort in developing and refining two important components of its advice review system.

The first component, referred to as the Case Assessment Tool (CAT), is a step-by-step case workflow tool that helps track and record case assessments made by the Bank's assessment team. The CAT was developed following the completion of the Pilot, and provides a more systematic means of tracking and recording the relevant facts, considerations and analysis completed by the Bank's assessment team.¹⁴ The CAT was yet to be deployed in a live production setting as at 30 April 2015, although testing of the tool had commenced in mid-April and a gradual rollout of the tool commenced in May 2015.

The second component of the advice review system that the Bank has refined over 2015 is the Program's compensation model. The compensation model represents the Bank's methodology for determining compensation amounts payable to customers assessed as having received poor financial advice under the Program. The model allows the Bank's assessment team to input relevant data (such as a customer's actual investment portfolio, appropriate advice portfolio, interest rates, and start and end dates for calculations) to

¹² The ARDB aims to consolidate all relevant case and customer data from the Program into the single database. The initial release occurred in December 2014 and several other releases (involving data migrations) have occurred in March and April 2015.

¹³ The database was created to manage the unique codes assigned to each mail-out recipient and allowed for the automatic creation of case identification numbers on receipt of an expression of interest from customers.

¹⁴ Further context regarding the development of the CAT is set out in Section 4.4.

calculate compensation amounts without the need for highly manual computations. The model was developed using one of the models used by the Bank in past remediation programs, and has since been subject to some minor refinements. The model is currently subject to a model validation from an external party to the Bank, with this validation expected to be completed in June 2015.¹⁵

Other future enhancements that the Bank has targeted in relation to IT systems development include:

- ongoing refinements to the Program's CRM and advice review applications to view all documents and metadata held in various CBA systems more easily – allowing for greater efficiency in case assessments;
- introduction of a separate database to house third-party fund manager product and transactions data that enables this information to be matched to customers in the Program; and
- further refinements to the advice review application to allow for more automated and consistent generation of correspondence to customers.

3.1.4. Customer file retrieval

A continuing challenge that the OAR program has faced as a result of its open nature and long Review Period is the retrieval of all relevant customer advice files related to a case. The file retrieval process is critical in the Program. In practical terms, a case assessment cannot commence until every effort is made to retrieve a file that adequately sets out the advice the customer received (and the basis on which that advice was provided).

In our Initial Report, Promontory provided a brief overview of the various processes the Bank had established to retrieve customer files from various systems and locations, including files stored on the Bank's IT systems and hardcopy documents residing in the Bank's storage and archiving facilities across the country.

Since the time of our Initial Report, the Bank has made a number of additional enhancements to the file retrieval process it adopted for the Program – particularly in relation to the retrieval of hard copy files located across CBA branches and archiving sites. The aim of these improvements has been to more efficiently identify, catalogue, collate and process all advice files for cases registered in the Program. These refinements have included:

- the development and implementation of a "Catalogue and Collect" software tool that provides a central repository to catalogue all hardcopy CFPL customer files found across CBA's branches, document archiving sites and other locations;¹⁶
- the deployment of more staff at locations where customer advice files have been stored or archived;¹⁷

¹⁵ Promontory has also reviewed the key assumptions and methodologies underpinning the compensation model, and has not identified any significant concerns with the methodology to date.

¹⁶ Once complete (estimated to be end August 2015), the "Catalogue and Collect" software tool is expected to provide a catalogue of *all* hardcopy advice files across CFPL (including CFPL customers who have not registered for the Program). At this stage, files relating to FWL practices will not be catalogued using the tool given the differences in accessing FWL customer files.

¹⁷ For example, since April 2015, the Bank has deployed more than 25 staff across six of its document archiving facilities to catalogue and collect files. Figure 3.1 illustrates the increase in Information Management resources dedicated to the ARp team.

- improvements in the co-ordination process to retrieve files, with staff now identifying and retrieving files that may be relevant to the Program at the same time as they are cataloguing advice files (reducing the need to make multiple trips to the same location); and
- ongoing improvements to the distribution and processing of customer advice files that have been collected, including the implementation of systems and databases used to track the movement of files between locations.

Although the refinements that have been made by the Bank have improved the efficiency of customer file retrievals, the Bank has (and will continue to) manage a number of challenges associated with the cataloguing of all CFPL customer files. These challenges include:

- difficulties in confirming whether a customer's advice files are complete, given that files could be distributed across many locations;
- the potential for some older customer advice files to have been destroyed, in accordance with the Bank's document retention policies and regulatory guidelines;¹⁸
- poor record management in some of the Bank's document archiving facilities;
- logistical challenges regarding document storage at various locations where the Bank's file retrieval team are located, given the large volume of files collated; and
- incomplete data capture for some original files, such as cases where the name of each adviser who provided advice to the customer during the Review Period is not stated.

Several initiatives have been undertaken by the Bank to mitigate the risks associated with these challenges. These initiatives include the further extraction of data from the Bank's IT systems to identify adviser names that may be missing, and cross-checks between data in the "Catalogue and Collect" software tool against data that are available from other Bank systems. The Bank also anticipates utilising more CBA branch staff on a temporary basis to assist in completing the cataloguing process (subject to such staff passing relevant security checks).

The Bank has indicated that, in the event that a customer's advice file remains incomplete after all efforts to retrieve files from physical locations have been exhausted, a standard procedure that attempts to identify the advice provided to the customer will be implemented. The Bank has yet to finalise the procedures that will apply in these circumstances.

¹⁸ Australian Financial Services licensees that provide personal advice (such as CFPL and FWL) are required to retain a copy of every Statement of Advice provided to a retail customer for at least seven years. To prevent the risk of further destruction of any customer advice files that may be relevant to the Program, the Bank requested a stop on the destruction of advice files at its document archiving sites shortly following the commencement of the Program.

3.2. Awareness and communications

3.2.1. CFPL mail-out

On 2 November 2014, the Bank announced that it would extend its customer contact for the OAR program by mailing out to more than 300,000 customers of CFPL.

On 29 January 2015, the Bank implemented its extended customer contact awareness campaign by mailing out letters about the Program to nearly 350,000 households. The mail-out targeted all customers who held a product issued by Colonial First State, CommInsure or CommSec as at January 2015, and had received advice from CFPL during the Review Period.¹⁹ The total number of letters sent out over January and February 2015 ultimately reached 348,255.

The letter notified recipients of the existence of the Program, and invited them to contact the Bank if they had any concerns about the advice they received from CFPL. Recipients were provided three avenues (mail, internet or phone) to contact the Bank and request additional information about the Program. All recipients were also provided a unique code in their letter to allow them to easily verify their details when requesting additional information.

Those persons who requested further information from the Bank were sent an information pack containing additional details about the Program, and a number of forms to complete (namely, a *You and Your Advice* form, and an Authority form for customers wishing to nominate a third-party to represent them in the Program). Customers must return a *You and Your Advice* form to formally register for the Program and have their case assessed.²⁰

The response rate to the Bank's mail-out initiative is covered in Section 5.1 of this Report.

3.2.2. Other awareness initiatives undertaken

In addition to the extended customer contact awareness campaign conducted through the mail-out, the Bank has continued to raise awareness of the Program through other initiatives.

In our Initial Report, Promontory noted that the Bank would explore alternative methods of reaching customers of FWL given contractual limitations on CBA to contact the customers of independently owned FWL practices. On 27 February 2015, the Bank wrote to each FWL practice principal and requested that they communicate the details of the OAR program to each of their customers. The request included a communications kit (containing a customisable draft cover letter and Program brochure) that could be sent to FWL customers (or to the estates of deceased customers) to inform them of the Program. This initiative was undertaken by the Bank to provide another means of raising awareness of the Program for FWL customers (beyond advertising) given the contractual limitations noted earlier.

Over the course of March and April 2015, the Bank undertook additional advertising across the country through the other elements of its Program awareness strategy. This additional advertising included:

¹⁹ The scope of this mail-out includes customers who may no longer receive advice from a representative of CFPL.

²⁰ As discussed in further detail in Section 3.3 below, this practice differed slightly to that applied by the Bank prior to the mail-out.

- half-page advertisements in major metropolitan newspapers across capital cities in Australia on several dates in March and April 2015;
- half-page advertisements in a wide range of rural and regional news publications across each state in Australia from April 2015 (see below for further details); and
- further distribution of Program information packs and brochures to various community groups and associations including National Seniors, Council of the Ageing state offices, Australian Shareholders' Association, Australian Pensioners and Superannuants League, Older Women's Network, and Combined Pensioners and Superannuants Association.

The advertisements placed in rural and regional newspapers from April 2015 drew on the results of the analytics work completed as part of the Bank's Program awareness strategy. In particular, the analytics work identified potential segments of the population that had yet to be targeted in previous Program advertising campaigns, and focused on these areas. Table 3.1 below summarises the publications where additional advertising of the Program was placed in rural and regional centres across the country.

Table 3.1: Rural and regional advertising placements

State / Territory	Publications
New South Wales	Coffs Coast Advocate Great Lakes Advocate Illawarra Mercury Northern Daily Leader Port Macquarie Express The Area News The Newcastle Herald The Northern Star Wagga Daily Advertiser
Northern Territory	NT News
Queensland	Beaudesert Times Rural Weekly (South West QLD) Sunshine Coast Daily The Cairns Post The Gold Coast Bulletin The Morning Bulletin The Queensland Times The Townsville Bulletin
South Australia	Murray Pioneer
Tasmania	The Hobart Mercury The Launceston Examiner
Victoria	Geelong Advertiser Shepparton News Sunraysia Daily
Western Australia	Busselton Dunsborough Mail Geraldton Guardian Kalgoorlie Miner Pilbara News

The Bank has also continued to run its digital advertising Program awareness strategy through the use of search engine marketing and its dedicated Program landing page on CBA's website. As at 28 April 2015, the Bank advised that more than 35,000 unique visitors had visited the Program campaign landing page since the Program was announced in July 2014 (up from approximately 24,000 as at the end of December 2014).

3.3. Changes to Program registration process

There have been relatively few changes to the Program's overall design features since the time of our Initial Report.²¹ One change that has occurred relates to the Program's registration process where, from late January 2015, customers who have wished to express interest in the Program and request additional information about the Program have been able to do so more easily. This change occurred as a result of the extended customer contact awareness campaign conducted in early 2015, where customers who were sent a letter notifying them of the Program were provided a unique code that they could use to readily view their details and confirm their interest in the Program.

As a consequence of this change, the Bank made a number of minor changes to its classification of cases "registered" in the Program. In particular, from 23 January 2015, the Bank has classified customers as being formally "registered" for the Program only once a *You and Your Advice* form has been returned.²² The Bank also amended its customer contact procedures in early 2015 given it no longer needed to contact all customers in the Program to confirm their details.

The Bank's Program documents have been amended to reflect these changes to the registration process.

²¹ The design features noted here relate to the Program's eligibility criteria, registration process, independent safeguards and reporting mechanisms. It does not cover the underlying systems used to support the Program's implementation (which are discussed in greater detail in Section 3.1), nor does it cover the detailed aspects of the Bank's case assessment processes (which are discussed in Section 4 below).

²² Persons who registered for the Program prior to 23 January 2015 continue to be classified as registrations by the Bank (regardless of whether a *You and Your Advice* form has been returned).

4. Implementation of the Pilot Program

4.1. Background

As set out in our Initial Report, CBA implemented a Pilot Program, commencing in November 2014, to test and refine the processes that will be used to assess cases under the full Program. The Pilot involved an assessment of 60 cases jointly selected by CBA and the ICAs, and contained a number of safeguards to ensure that customers participating in the Pilot would not be disadvantaged from potential changes to the assessment process following its completion. These safeguards included:

- representation by one of the three appointed ICAs for each participant in the Pilot;
- the ongoing opportunity for participants to continue in the Program and access the Independent Review Panel (Independent Panel) if they remain unsatisfied with the assessment outcome determined by the Bank;²³ and
- mechanisms introduced by the Bank to allow cases in the Pilot to be re-assessed under certain conditions.²⁴

Each customer nominated and selected for the Pilot participated on a voluntary basis.

4.2. Process for assessing cases in the Pilot

All 60 cases that were selected for the Pilot were assessed against a preliminary set of assessment guidelines and methodology (including a loss calculation methodology) developed by the Bank.

The preliminary assessment methodology sets out the range of factors and considerations that the Bank's assessment team was required to consider in forming an opinion on the appropriateness of advice provided to a customer. This methodology was supported by a set of preliminary assessment guidelines, which provided more specific guidance on how various factors identified in the methodology should be analysed and assessed by the Bank's assessment team. The factors included, *inter alia*: customer risk appetite; investment experience; investment horizon; asset allocation; financial goals and objectives; and relevant personal circumstances.

The loss calculation methodology sets out the assumptions and computational procedures underlying the Program's compensation model. The loss calculation methodology includes procedures for:

- selecting an appropriate investment portfolio that could be used to compare financial outcomes between a customer's actual investments and a portfolio that would have been appropriate for the customer at the time advice was given;

²³ Subject to a customer's ICA certifying that he/she has reasonable prospects of exceeding the assessment outcome determined by the Bank by a material amount.

²⁴ In particular, where changes to an assessment or loss calculation methodology have been made by the Bank that would have the effect of increasing the amount of compensation offered to a customer in the Pilot, or where a decision has been made by the Independent Panel in respect of a case which was assessed as part of the Pilot.

- selecting start and end dates for compensation calculations;
- assessing fee refunds, where they are applicable; and
- applying interest to compensation amounts for forgone losses and opportunity costs, where applicable.

The assessment guidelines and methodology (including the loss calculation methodology) developed for the Pilot were provided to Promontory. Findings from our review of these preliminary assessment guidelines and methodology, including their application to the cases in the Pilot, are set out in Section 4.5.1.

4.3. Outcomes of the Pilot

As noted above, CBA commenced the assessment of cases in the Pilot in late 2014. An initial group of nine cases in the Pilot had their assessments completed by the end of December 2014, with customers notified of their assessment outcomes in letters issued by the Bank. A further 10 cases had their assessments completed in January 2015, with an additional 34 cases having their assessments completed in February 2015. By 20 March 2015, assessment outcome letters had been issued to all but one of the 60 cases in the Pilot, with the last remaining assessment outcome letter issued on 17 April 2015.

4.3.1. Assessment outcomes issued by the Bank

A summary of the assessment outcomes issued by the Bank for the 60 cases in the Pilot is summarised in Table 4.1 below.

Table 4.1: Assessment outcomes from Pilot

Outcome	Number of cases as at 30 April 2015
Advice appropriate	47
Poor or incorrectly implemented advice found – no compensation offered as no financial loss resulted from the poor or incorrectly implemented advice	2
Poor or incorrectly implemented advice found – compensation offered	9
Fee refund offered ²⁵	2
TOTAL	60

As Table 4.1 illustrates, there were 13 cases where an issue was found with the advice provided to the customer or where a fee refund was offered to the customer. Of these 13 cases:

²⁵ These are cases where the compensation offered consisted entirely of a fee refund. Cases that involved both poor advice (which resulted in the customer suffering financial loss) and a fee refund are covered in the "Poor or incorrectly implemented advice found - compensation offered" category.

- two cases were found to have involved poor advice (or incorrect implementation of advice) but were assessed by the Bank not to have resulted in the customer suffering a financial loss due to the poor advice (hence, no offer of compensation was made);
- nine cases were found to have involved poor advice (or incorrect implementation of advice), which resulted in the customer suffering a financial loss (with an offer of compensation made); and
- two cases involved fees being refunded to the customer due to the over-charging and/or the non-disclosure of advice fees paid by the customer (with the advice being assessed as otherwise appropriate).

We highlight that the assessment of fees is one area of the assessment process that was still subject to finalisation as at 30 April 2015. The two fee assessments noted above were both relatively straightforward. In addition to these two cases, the Bank has identified other potential issues in its advice business where customers may have been charged an advice service fee even though not all of the services paid for were received by the customer. The Bank is currently in the process of investigating the issue further, and is working to develop an approach that addresses such issues (for customers who participated in the Pilot as well as those outside of the Pilot). The Bank has indicated that, where the fee issue affects customers who have had their assessments completed, the Bank will notify those customers of the additional steps the Bank will take to address the issue.

The total amounts of compensation that had been offered and paid by the Bank in relation to the cases in the Pilot as at 30 April 2015 are set out in Table 4.2 below.

Table 4.2: Compensation amounts from Pilot

Compensation	Amount as at 30 April 2015
Offered by the Bank	\$216,611
Paid by the Bank	\$49,702

The \$49,702 paid in compensation in the Pilot as at 30 April 2015 encompassed payments made to two cases. The remaining \$166,909 in compensation that had been offered but not yet paid related to Pilot cases where the offer was still under review (offers amounting to \$68,204), and offers that had been accepted by customers but where payment had yet to be processed by the Bank as at 30 April 2015 (offers amounting to \$98,705).

4.3.2. Response to assessment outcomes

Following the receipt of an assessment outcome from the Bank, customers have a number of options relating to how they may respond to the Bank. If an offer of compensation is made, the customer can:

1. accept the offer (and subsequently exit the Program);
2. reject the offer and provide the Bank with a counter-offer (with the potential to escalate the matter to the Independent Panel if an outcome cannot be agreed with the Bank); or

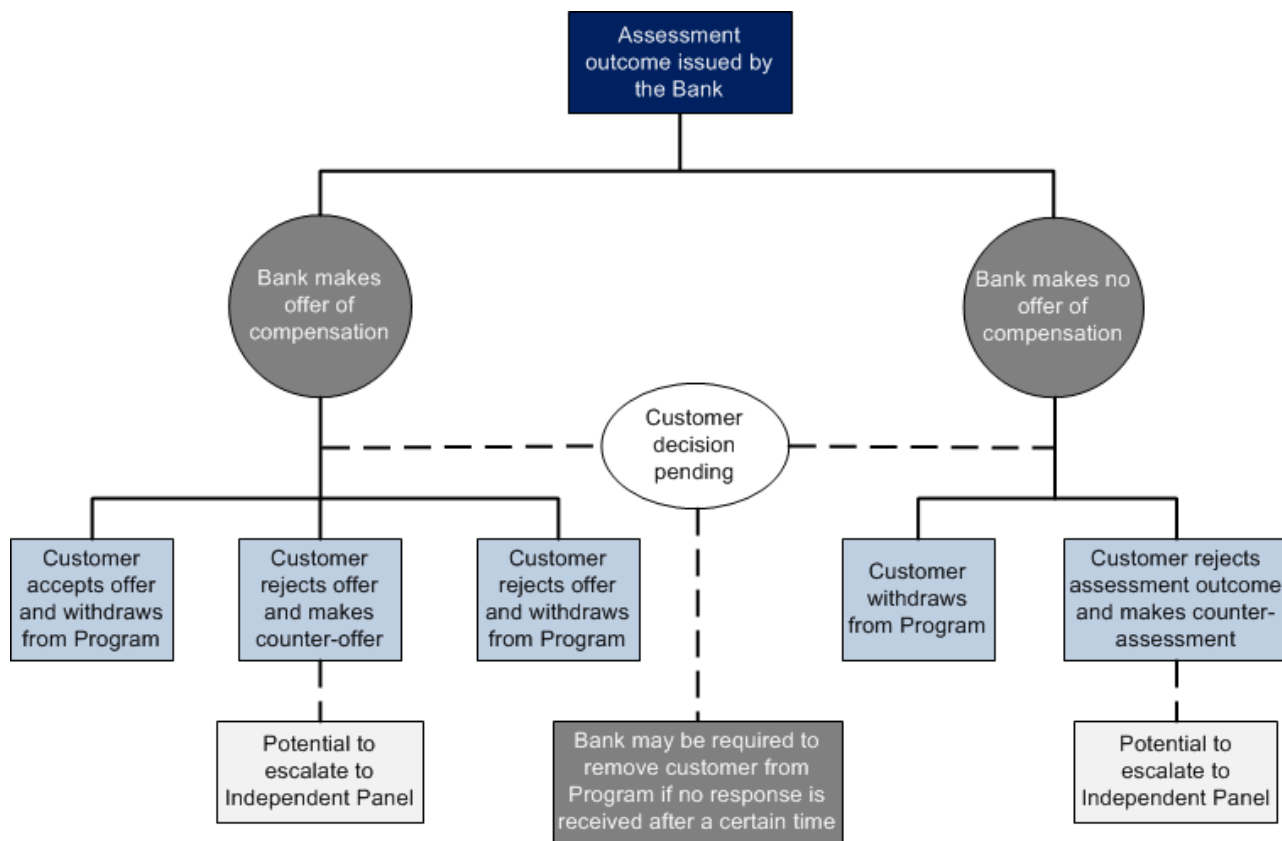
3. reject the offer and withdraw from the Program.

If an offer of compensation is not made by the Bank, the customer can:

1. reject the assessment outcome and provide the Bank with a counter-assessment (with the potential to escalate the matter to the Independent Panel if an outcome cannot be agreed with the Bank); or
2. withdraw from the Program.²⁶

Figure 4.1 provides a summary of the responses available to a customer following receipt of an assessment outcome.

Figure 4.1: Potential customer responses to the Bank’s assessment outcome



As at 30 April 2015, the Bank had received a response from customers in 43 out of the 60 cases in the Pilot. Customer responses remained pending in the other 17 cases. A summary of the responses that had been received by the Bank as at 30 April 2015 is set out in Table 4.3 below.

²⁶ In the event a customer is provided no offer of compensation from the Bank, the Bank may be unable to determine the reason for the customer withdrawing from the Program (i.e., whether the customer accepted or disagreed with the Bank’s assessment outcome) due to no further contact from the customer.

Table 4.3: Customer response to assessment outcomes from the Pilot

Response	Number of cases as at 30 April 2015
Cases where an offer of compensation was made:	11
Customer accepted offer	4
Customer rejected offer and made a counter-offer	4
Customer rejected offer and withdrew from Program	0
Customer response was pending	3
Cases where no offer of compensation was made:	49
Customer rejected outcome and made a counter-assessment	18
Customer withdrew from Program	17
Customer response was pending	14

For each case where a counter-offer or counter-assessment was made, the Bank had yet to provide a formal response to these counters as at 30 April 2015. The Bank has indicated that it will engage with customers (and/or their ICAs) on the merits of their respective counter-offer or counter-assessment before deciding on potential changes to assessment outcomes or offers.

The Bank is also continuing to engage with the ICAs in respect of those cases where a response remains pending.

4.4. Lessons from the Pilot

As noted in our Initial Report, CBA's decision to implement a Pilot for the OAR program was driven, in part, by the unique features and complexities associated with the Program's design. The Bank recognised that, given the open nature of the Program and long Review Period involved, the Bank's processes for assessing cases in the Program were likely to benefit from further testing and refinement prior to full implementation. The Bank saw the Pilot as an opportunity to identify areas where it could enhance its assessment processes prior to full implementation, so as to facilitate more consistent, reliable and traceable outcomes under the full Program.

As the Pilot progressed, the Bank identified numerous opportunities to enhance its assessment processes based on the experience gained in assessing the 60 cases. These opportunities included enhancements that would allow for:

- greater scalability and efficiency in the Bank's assessment processes, particularly in light of the relatively time-consuming processes involved with recording assessment outcomes for cases in the Pilot;
- greater traceability in the recording of assessment outputs, so that outcomes would be more readily verifiable by CBA's peer reviewers, senior management as well as relevant external parties such as Promontory; and

- more structured and streamlined decision making, by eliminating as much subjectivity and discretion in the case assessment process as possible.

To account for the lessons it identified in the Pilot, the Bank worked on a number of enhancements to its assessment processes over February to April 2015. These enhancements centred on the development of a more structured assessment framework referred to by the Bank as the “Advice Review program Solution” (ARp Solution). The ARp Solution aimed to streamline the case assessment process, and increase the efficiency, traceability and consistency of outcomes by bringing together several related components, including:

- a revised overarching assessment methodology that is based on a series of questions designed to provide more structure to the decision-making and case assessment process;
- the development of Standard Operating Procedures for various functions involved in the end-to-end assessment process, to clarify procedures and responsibilities at various stages of the assessment;
- more detailed assessment guidelines that provide clearer instructions and assistance to Assessment Managers in identifying potential triggers that could render advice inappropriate; and
- the development of the CAT, which translates the assessment methodology into a step-by-step process that Assessment Managers must progress through, and which helps to maintain more effective records of case assessments.

The Bank implemented several streams of work to support the ARp Solution’s development, and the refinements that were made to the underlying assessment guidelines and methodology. These work streams included an examination of relevant guidelines and legal principles throughout the Review Period, and investigations into the practices and standards applied by CFPL and FWL.

The work that was undertaken to support the ARp Solution’s development required time and resources from the Bank, and has contributed to the length of time needed to progress cases to the Assessment stage of the Program. With many of the essential components of the ARp Solution now close to finalisation and implementation, the Bank expects to be able to accelerate the volume of cases it assesses over the next six months.

Promontory’s assessment of the refinements that were made as a result of the lessons learned from the Pilot is set out in Section 4.5.1 below.

4.5. Promontory’s oversight role

Promontory’s role in the Pilot was to oversee the implementation of the exercise, and to report on the outcomes in this Report. Our oversight role aimed to:

- provide us with greater visibility and comfort over the assessment processes that will be applied by the Bank to achieve the Program’s objectives;
- assist us to test and refine our own methodologies for case sampling and review that will apply under the full Program; and
- provide transparency and a level of assurance to the public regarding the implementation of the Pilot.

In order to perform our role, Promontory was provided access to various documents and information that allowed us to understand how the Pilot was implemented, the outcomes that were achieved, and the types of engagement that occurred between various parties involved in the Pilot (such as interactions between the Bank and the ICAs). In particular, Promontory was provided:

- all advice files retrieved by the Bank or provided by the customer for each case in the Pilot;
- all formal correspondence to customers outlining the assessment outcomes completed by the Bank;
- summaries of the general comments and responses received by the Bank in its engagement with the ICAs during the course of the Pilot; and
- preliminary assessment guidelines and methodology documents that set out the factors and considerations CBA's assessment team used to assess cases in the Pilot.

In reviewing the information that was provided to us, Promontory was cognisant of the developmental nature of the Pilot and its critical role in shaping the Bank's approach to ensuring fair and consistent outcomes under the full Program. Our approach to reviewing the information that was provided to us (including each of the 60 cases involved) was therefore targeted at:

- understanding how the preliminary assessment guidelines and methodology developed by the Bank would help achieve the objectives of the Program;
- identifying how the Bank's assessment processes could be further improved to help achieve the objectives of the Program; and
- identifying the information and documents required by Promontory to undertake our review role under the full Program (including information that would be necessary to conduct our sampling).

We should be clear that, although we reviewed each of the 60 cases that were assessed in the Pilot, our focus in reviewing these cases was not to confirm whether the Bank's documented assessment processes (which were still in a preliminary state) were adhered to. As noted above, we were conscious of the developmental nature of the assessment processes that were applied in the Pilot, and considered that the most effective application of our resources was to focus on ways in which the Bank's assessment processes could be further enhanced to achieve the Program's objectives. Our findings in relation to this review are set out below.

4.5.1. Our findings on the Pilot

As outlined above, Promontory was provided preliminary assessment guidelines and methodology documents that were used to inform the Bank's assessment of cases in the Pilot. Promontory was also provided the outputs of case assessments completed by the Bank. The outputs documented the facts, considerations and conclusions that were made by CBA's assessment team in determining case assessment outcomes.

Promontory made a number of observations in reviewing the preliminary assessment guidelines and methodology documents that were provided to us. These included the following:

- The preliminary assessment guidelines and methodology that were developed for the Pilot drew on, where relevant, case assessment processes that were applied in past remediation projects completed by the Bank. The Bank recognised, and Promontory agreed, that a number of adjustments to the case

assessment process were needed for the OAR program, given the long Review Period and customer-initiated nature of the Program. These adjustments included introducing processes to take account of specific customer concerns raised in *You and Your Advice* forms (not a feature of past remediation programs), and refining the processes to deal with customer concerns about potential fraud or forgery (given the involvement of the Independent Forensic Expert in the Program).

- Although the preliminary assessment guidelines and methodology covered a broad set of relevant considerations, we found a number of limitations associated with the processes including:
 - insufficiently detailed guidelines or instructions to direct the decision-making process for CBA's assessment team – particularly in relation to how a customer's risk profile and relevant personal circumstances were to be assessed in determining appropriate investment strategies and asset allocations for a customer;
 - a lack of clarity in the way certain factors were to be assessed, such as guidance on how to deal with insufficient or conflicting information in a case, how to assess the suitability of products recommended by an adviser, and how to assess the appropriateness of advice fees paid by a customer; and
 - a considerable reliance on the skill and judgement of the Bank's individual Assessment Managers to collate the relevant information necessary to conduct the assessment and reach an outcome.
- In our view, the limitations in the assessment process had the potential to impact our ability to assess the consistency of case assessments in the Program. We also believed that the reliance placed on individual Assessment Managers to make judgements in a number of areas of the assessment process had the potential to make outcomes more prone to inconsistencies. Although we recognised the Bank had introduced controls to help maintain the consistency of judgements and outcomes across cases in the Pilot (e.g., through appropriate peer review and senior management approval processes), we believed there were opportunities to better structure the assessment process to deliver outcomes more consistently under the Program.

Promontory also reviewed the Bank's assessment of the 60 cases in the Pilot to understand how the preliminary assessment guidelines and methodology documents were applied, and how this might impact on our own review processes going forward. Our main observation in relation to this aspect of our review was that we found it difficult to trace and verify whether each aspect of the Bank's assessment processes (as documented in the preliminary assessment guidelines and methodology) was adhered to for all cases in the Pilot. This difficulty arose primarily from a lack of clear traceability within some of the Bank's recorded assessment outputs as to the considerations made by the Bank's assessment team.

Given the observations noted above, Promontory's main conclusion from the Pilot was that, unless certain limitations in the Bank's assessment guidelines, methodology and recording of assessment outcomes were addressed, we would find it difficult to confirm in our future sampling whether cases were being assessed in a manner that was consistent with the Program's documented processes. We therefore advised the Bank of the need to make material refinements to its assessment process, so that the outcomes and judgements made by the Bank's assessment team would be more transparent to us in the full Program.

The Bank accepted our observations and findings from the Pilot, and noted that many of the observations we identified were similar to those raised internally within the Bank as it progressed through the Pilot. The Bank provided us with the work that it had undertaken to develop the ARp Solution, including the refinements made

to the underlying assessment guidelines and methodology noted in Section 4.4 above. In April 2015, Promontory commenced reviewing aspects of the ARp Solution and its underlying components. Although we believe some aspects of the assessment process will still require further refinement as the Program evolves, our overall view of the developments is positive. In particular, we believe that material improvements have been made to the Bank's assessment processes since the completion of the Pilot. These improvements should help deliver outcomes that are more transparent to us and consistent for customers in the Program.

Given some of the observations that we identified in the Pilot, and the subsequent improvements that have been made to the Bank's assessment processes, the Bank has indicated that it will undertake a further review of all cases in the Pilot where we found it difficult to verify adherence to the Program's documented processes. This review will involve a re-assessment of the cases using the refined methodology and tools embedded in the ARp Solution. The Bank's commitment to undertake this review is consistent with the safeguards introduced as part of the Pilot, and aims to provide additional assurance to participants in the Pilot that they were not disadvantaged from having participated.

4.6. Other observations

Another important feature of the Pilot was the involvement of the three appointed ICAs to challenge and question the assessment processes that would be applied by the Bank in the Program. As noted above, each customer in the Pilot was required to be represented by an ICA.

In order to assist the ICAs in their representation of customers in the Pilot, the Bank provided the ICAs with access to their customers' advice files and other documents retrieved by the Bank. The Bank also engaged in a number of workshops with the ICAs (collectively and on an individual basis) to provide them with a better understanding of the assessment processes applied by the Bank to determine assessment outcomes. The workshops provided the ICAs with an opportunity to raise issues identified with the assessment process, and to provide feedback on areas where further validation or clarification was required.²⁷

In addition to the workshops, the Bank also engaged the ICAs through a range of other channels on a regular basis, including:

- teleconferences and individual meetings between representatives of the Bank and each ICA to discuss issues specific to each ICA (such as the timeliness of responses and the treatment of individual cases being reviewed by the ICA);
- the provision of reports and discussions papers to the ICAs that address the Bank's approach to certain aspects of the assessment process (such as compensation calculations and the appropriateness of investment portfolios used to compare financial outcomes in the compensation model); and
- an information session on the third-party electronic data storage facility used to enable the distribution and exchange of documents in a secure online environment.

The Bank continues to engage with the ICAs on their readiness to deal with large case volumes going forward, given the expected acceleration of case assessments over the next six months.

²⁷ Feedback was provided to the Bank on a number of areas of the assessment process, including the Program's compensation model, the appropriateness of products in certain customer segments, and the notification of product risk to customers.

5. Program statistics

In our Initial Report, Promontory provided an update on the number of customers who had registered and progressed through the earlier stages of the Program as at 15 December 2014. This section of the Report provides a further update on the number of customers progressed through the various stages of the Program as at 30 April 2015. It also provides an update on assessment outcomes issued by the Bank, and offers of compensation.

For the purposes of the Program, customers who express an interest in the Program are assigned a "case number". A "case" can include more than one customer (for example, customers who received advice together). The figures quoted in this section refer to cases in the Program.²⁸

All figures quoted in this section include the 60 cases that were assessed as part of the Pilot.

5.1 Expressions of interest

As discussed in Section 3.3, the Bank made a number of changes to the Program's registration process in January 2015, following the extension of its customer contact awareness campaign in early 2015. The change in registration process saw a re-classification of cases considered to be formally "registered" for the Program from 23 January 2015. From this date, a case was considered to be registered for the Program only after the customer had returned a *You and Your Advice* form to the Bank. Cases where the customer had yet to return a *You and Your Advice* form (but had otherwise expressed an interest in the Program by requesting additional information) would be classified as cases that had "expressed interest" in the Program.

The total number of cases that had expressed interest in the Program as at 30 April 2015 is set out in Table 5.1 below. We note that the total number of cases reported in Table 5.1 includes those that have progressed through to other stages of the Program, but excludes duplicate registrations that have been identified by CBA.²⁹

Table 5.1: Cases that have expressed interest

Number of cases that have:	Prior Total ³⁰ as at 15/12/2014	New	Total as at 30/4/2015
Expressed interest	4,661	17,774	22,435

As Table 5.1 illustrates, there has been a substantial increase in the number of cases that have expressed interest since the end of 2014. The increase of 17,774 new cases in the Program was driven primarily by the

²⁸ As the Bank receives additional information from customers during the course of the Program, it may decide to combine certain related cases together (e.g., where a married couple took out a joint policy but expressed interest in the Program separately). The number of cases reported here may therefore be subject to change over time given additional information received by the Bank.

²⁹ The Bank had identified 794 duplicate cases as at 30 April 2015.

³⁰ The figure of 4,661 cases noted here compares to a figure of 4,702 registrations reported in our Initial Report. The Bank has notified us that the difference of 41 cases is due to additional cases being identified as duplicate or test cases from the registration figures we reported in our Initial Report.

extended customer contact awareness campaign initiated in early 2015, where close to 90% of new cases that had expressed interest in the Program since the campaign was initiated had done so by responding to the mail-out.

5.2 Customer contact

Table 5.2 below provides an update on the number of cases in the Program where information packs had been sent by the Bank as at 30 April 2015. As discussed in Section 3.3, the Bank no longer contacts all customers who express interest in the Program prior to sending out an information pack, given changes made to the way in which the Bank confirmed customer details as part of the extended customer awareness campaign.

Table 5.2: Information packs sent

Number of cases where:	Total as at 30/4/2015
Information pack sent	20,456
Information pack not sent	1,979
TOTAL	22,435

Table 5.2 indicates that approximately 91% of cases had received an information pack from the Bank as at 30 April 2015. The Bank has indicated that the remaining 1,979 cases where an information pack had not been sent as at 30 April 2015 related to cases:

- where the Bank was in the process of obtaining further contact details in order to send an information pack (approximately 67% of the 1,979 cases);
- that had only recently expressed interest in the Program (25%);
- that had withdrawn from the Program prior to receiving an information pack (3%); and
- that had not been sent an information pack for various other reasons (5%).³¹

5.3 Case progression

In our Initial Report, Promontory noted that the Bank had commenced receiving *You and Your Advice* forms from customers in the Program, but had yet to begin formal assessment of cases outside of those in the Pilot. Since that time, a significant increase in the number of *You and Your Advice* forms have been returned to the Bank, and the Bank had (as at 30 April 2015) completed over 200 case assessments in the Program (including those assessed under the Pilot).

³¹ This category includes customers who had been contacted multiple times by the Bank without success, cases where customers had indicated a preference to receive the information pack via their ICA, and cases that were in the process of being sent an information pack as at 30 April 2015.

Table 5.3 and Figure 5.1 set out the total number of cases that had progressed through the various stages of the Program (beyond the expression of interest stage) as at 30 April 2015.

The figures presented in Table 5.3 and Figure 5.1 are based on the following definitions of each stage:

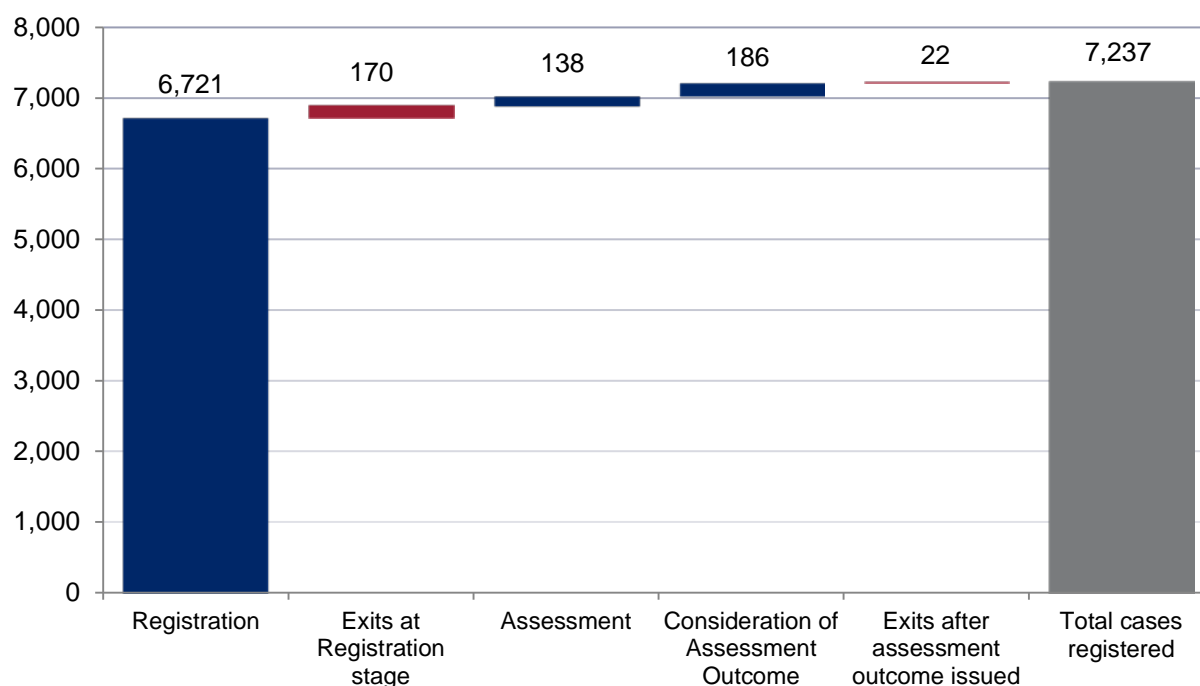
- **Registration:** refers to cases that had expressed interest on or after 23 January 2015 and had returned a *You and Your Advice* form to the Bank. This category also includes cases that registered for the Program prior to 23 January 2015.
- **Assessment:** refers to cases that had been confirmed as eligible for the Program following the Bank's receipt and review of the customer's *You and Your Advice* form, and where case assessment had commenced.
- **Consideration of Assessment Outcome:** refers to cases in the Program where an assessment outcome had been issued by the Bank.
- **Independent Panel Review:** refers to cases where the Bank's final assessment outcome had been rejected by the customer and the case had been escalated to the Independent Panel.
- **Exits prior to Registration stage:** refers to cases that expressed interest in the Program on or after 23 January 2015, and had withdrawn from the Program prior to a *You and Your Advice* form being returned to the Bank.
- **Exits at Registration stage:** refers to cases that had withdrawn from the Program prior to assessment (for cases registered prior to 23 January 2015), and cases that had withdrawn from the Program after a *You and Your Advice* was returned to the Bank (for cases that expressed interest on or after 23 January 2015). This category also includes cases that had been deemed ineligible for the Program by the Bank.
- **Exits after assessment outcome issued:** refers to cases that had withdrawn from the Program after having been issued an assessment outcome from the Bank. This category includes customers who had accepted an offer of compensation, or otherwise withdrawn from the Program without seeking a further assessment from the Independent Panel.

Table 5.3 sets out the cumulative number of cases progressed through to each stage of the Program, while Figure 5.1 provides a point-in-time view of the number of cases in each stage as at 30 April 2015.

Table 5.3: Cumulative number of cases progressed through to each stage of the Program (beyond expression of interest)³²

Stage	Prior Total ³³ as at 15/12/14	New	Total as at 30/4/15
Registration	4,661	2,576	7,237
Assessment	0	346	346
Consideration of Assessment Outcome	0	208	208
Independent Panel Review	0	0	0
Exits prior to Registration stage	0	74	74
Exits at Registration stage	90	80	170
Exits after assessment outcome issued	0	22	22

Figure 5.1: Number of cases in each stage of the Program as at 30 April 2015



³² Note that, although case exits are reported as separate line items in this table, the figures quoted for the Registration, Assessment, Consideration of Assessment Outcome and Independent Panel Review stages include those cases that had progressed through these stages, then exited the Program.

³³ The 60 cases in the Pilot are classified as being in the Registration stage in this column despite a number of these being actively assessed as at the time of our Initial Report. The 90 cases that have been identified as exits at the Registration stage in this column compares to a corresponding figure of 92 in our Initial Report; the difference reflects the Bank's re-classification of two cases as test cases since the time of our Initial Report.

Table 5.4 below provides a further breakdown of the number of cases exited from the Program. Cases can exit the Program at various stages and generally fall into one of the following categories:

- customer withdrawals (can occur at any stage of the Program);
- ineligibility for the Program (identified by the Bank at the Registration stage);
- customer acceptance or rejection of either an assessment outcome from the Bank, or a decision by the Independent Panel (driven by the customer at the Consideration of Assessment Outcome and Independent Panel Review stages); and
- removal from the Program by the Bank on administrative grounds (for example, from a lack of response by the customer to support case assessment or progression in the Program).

Table 5.4: Number of cases exited from the Program

Reason for exit	Prior Total as at 15/12/2014	New	Total as at 30/4/2015
Exits prior to Registration stage			
Customer withdrew from Program	0	74	74
Exits at Registration stage			
Case deemed ineligible for the Program	0	9	9
Customer withdrew from Program	90	71	161
Exits at Assessment stage			
Customer withdrew from Program	0	0	0
Exits after assessment outcome issued			
Customer accepted offer of compensation from Bank	0	5	5
Customer rejected offer of compensation from Bank and did not request Independent Panel Review	0	0	0
Customer withdrew from Program	0	17	17
TOTAL	90	176	266

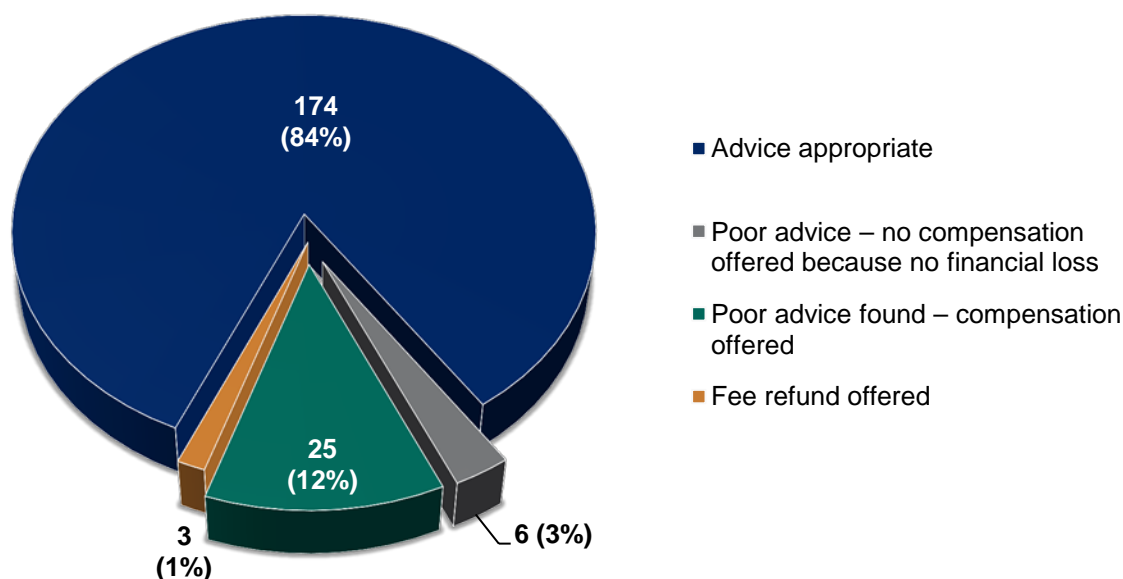
As at 30 April 2015, no cases had been removed from the Program by the Bank on administrative grounds. The Bank has also indicated that no cases had exited the Program and subsequently referred a claim to the Financial Ombudsman Service (FOS) or to the courts as at 30 April 2015.

5.4 Assessment outcomes

As the figures in Table 5.3 indicate, 208 cases had progressed through to the Consideration of Assessment Outcome stage as at 30 April 2015 – meaning that 208 assessment outcomes had been issued by the Bank.

A breakdown of the 208 assessment outcomes that had been issued by the Bank as at 30 April 2015 is set out in Figure 5.2.

Figure 5.2: Breakdown of the 208 Assessment Outcomes issued as at 30 April 2015



The four categories defined in the Figure 5.2 are:

- **Advice appropriate:** this category refers to cases where the Bank had found no evidence of poor advice being provided to the customer, nor any evidence of incorrectly implemented advice or incorrect fees being charged.
- **Poor advice found – no compensation offered because no financial loss:** this category refers to cases where the Bank had found poor or incorrectly implemented advice, but where no offer of compensation was made because the Bank had assessed that no financial loss was suffered by the customer as a result of the poor or incorrectly implemented advice.³⁴
- **Poor advice found – compensation offered:** this category refers to cases where the Bank had found poor or incorrectly implemented advice, and where compensation was offered because the

³⁴ The Bank also takes into account any previous compensation that may have been paid to a customer under past remediation programs completed by the Bank. Where poor advice has been identified during the Review Period and compensation has been previously paid by the Bank for the poor advice identified, the Bank will offset any compensation calculated under the Program for previous compensation paid. To the extent the offset completely eliminates the amount of compensation payable under the Program, such cases will also be captured in this category.

Bank had assessed the customer to have suffered financial loss as a result of the poor or incorrectly implemented advice.

- **Fee refund offered:** this category refers to cases where issues were identified with the advice fees charged to the customer, and where compensation was offered that comprised entirely of a fee refund.³⁵

As Figure 5.2 illustrates, the Bank had offered compensation to 28 out of the 208 cases (13%) where an assessment outcome had been issued as at 30 April 2015. In 174 cases (84%), the Bank assessed the advice to be appropriate and consequently made no offer of compensation. The remaining six cases (3%) were assessed by the Bank as having involved poor or incorrectly implemented advice, but where that poor or incorrectly implemented advice was assessed to have not resulted in the customer suffering financial loss (and hence no offer of compensation was made).

We note that the breakdown and percentages presented in Figure 5.2 relate only to assessment outcomes issued by the Bank as to 30 April 2015; they do not reflect the possibility that some cases may change classification after this date if a customer successfully counters the Bank's assessment outcome (as allowed for in the Program's design). Of the 208 cases where an assessment outcome had been issued as at 30 April 2015, only 22 had reached a final decision regarding their assessment outcome. The remaining 186 cases remained under review by the customer or, in cases where the customer had made a counter-offer or counter-assessment to the Bank, remained under review by the Bank. Table 5.5 provides a breakdown of the status of cases that had progressed through to the Consideration of Assessment Outcome stage as at 30 April 2015.

Table 5.5: Status of cases that had been issued an assessment outcome as at 30 April 2015

Case status	Total as at 30 April 2015
Offer of compensation made by Bank	
Offer accepted by the customer	5
Offer under review by the customer	19
Offer rejected by the customer and counter-offer made to the Bank	4
No offer of compensation made by Bank	
Customer subsequently withdrew from the Program	17
Assessment outcome under review by the customer	144
Assessment outcome rejected by the customer and counter-assessment made to the Bank	19
TOTAL	208

³⁵ Cases that involved both poor advice (which resulted in the customer suffering financial loss) and a fee refund are covered in the "Poor advice found - compensation offered" category, and excluded from this category.

Of the 208 cases that had received an assessment outcome, approximately 60% of cases had retained the services of an ICA to assist with their review of the Bank's assessment outcome as at 30 April 2015. This percentage includes the 60 Pilot cases that were required to retain an ICA as part of their participation in the Pilot.

5.5 Compensation

Table 5.6 sets out the amount of compensation offered and paid by the Bank in the Program as at 30 April 2015. As Table 5.6 illustrates, the Bank had offered \$562,513 in compensation and, of this amount, paid \$79,702.³⁶

Table 5.6: Compensation amounts

Compensation	Prior Total <i>as at 15/12/2014</i>	New	Total to Date <i>as at 30/04/2015</i>
Offered by the Bank	\$0	\$562,513	\$562,513
Paid by the Bank	\$0	\$79,702	\$79,702

The \$482,811 in compensation that had been offered but not yet paid as at 30 April 2015 related to cases where:

- the offer of compensation was still under review by the customer or the Bank (offers amounting to \$248,307); and
- the offer of compensation had been accepted by the customer, but payment was yet to be processed by the Bank as at 30 April 2015 (offers amounting to \$234,504).³⁷

The total amount of compensation paid up to 30 April 2015 related to three cases in the Program.

³⁶ These compensation figures include offers and payments made to customers who participated in the Pilot.

³⁷ The Bank has confirmed that payments related to these offers were made in May 2015.

6. Sample case reviews

6.1. Scope of sampling

Promontory's role in the Program requires us to review a sample of cases at different stages of the Program to determine if customers have had their cases assessed in a manner that is consistent with the Program's documented processes. In undertaking this review, Promontory not only considers whether adherence to the Program's documented processes has occurred, but also:

- whether the cases have been dealt with in a manner that is consistent with the Program's objectives; and
- whether it was reasonable and practicable in the circumstances to follow the Program's documented processes.

Given the focus that has been placed in completing the assessment of the 60 cases in the Pilot since our Initial Report, and the relatively limited number of cases that had progressed through the Program's Assessment stage as at 30 April 2015, Promontory's sampling to date has focused only on cases in the Pilot, and cases exited from the Program prior to assessments being completed (i.e., exits at, or prior to, the Program's Registration stage).

Our findings in relation to cases in the Pilot have been set out in Section 4.5.1 of this Report. As we noted in that section, the focus of our review for the Pilot cases was to understand how the Bank's assessment processes could be further enhanced under the full Program.

Our approach and findings from our review of case exits prior to assessment in the Program are set out in further detail below.

Over the coming months, Promontory will commence its sample review of cases that have gone through the Program's Assessment stage (beyond those assessed as part of the Pilot). We will report on our findings from this sample in our next periodic report. A brief outline of the approach and methodology that Promontory will apply to perform this task is set out in Section 6.4 below.

6.2. Review of cases exited prior to Assessment stage

As noted in Section 5.3 of this Report, customers who exit the Program prior to their case being assessed will generally have exited because:

- the customer has withdrawn from the Program; or
- the Bank has deemed the case to be ineligible for the Program.³⁸

³⁸ A case could also be removed from the Program by the Bank on administrative grounds where, for example, the customer has not responded to a Bank request for additional information within a certain time period (as notified by the Bank to the customer). No cases had exited the Program in this manner as at 30 April 2015.

As at 30 April 2015, the total population of cases in each of these categories (as set out in Table 5.4) was:

- 235 cases of customer withdrawals since the Program's commencement (comprising of 161 cases that withdrew at the Registration stage, and 74 cases that withdrew prior to the Registration stage); and
- nine cases that were deemed ineligible by the Bank since the Program's commencement.

Given the importance of ensuring each customer in the Program is provided an adequate opportunity to have their case assessed and is not prematurely removed from the Program, we applied a highly conservative approach in this review by reviewing all cases in both categories of exits. We expect that, as the Program progresses and we gain more comfort with the implementation of the Bank's processes, we will be able to sample less than 100% of cases in these categories.

Our approach to reviewing the exits involved the following:

- For the 235 cases of customer withdrawals:
 - Identifying evidence that verified a customer's request to withdraw from the Program by reviewing relevant correspondence between the Bank and the customer. This included a review of written correspondence between the Bank and the customer (where a request was made by writing), as well as a review of call logs, customer files, and other file notes in the Program's advice review systems.
 - Confirming that the Bank's approach for dealing with cases that elected to opt-out was applied on a consistent basis – in particular, whether written confirmations were provided to customers that elected to withdraw from the Program whenever it was practicable and reasonable.
- For the nine cases that were deemed ineligible by the Bank:
 - Identifying evidence that that might indicate a customer should not have been classified as ineligible for the Program. This included a review of any applicable information that was provided by the customer (or retrieved by the Bank) that could indicate the customer was, in fact, eligible for the Program (e.g., evidence that the customer may have received advice from CFPL or FWL during the Program's Review Period).
 - Confirming that the Bank's processes for dealing with cases that were deemed ineligible for the Program had been adhered to – in particular, whether written confirmations were provided to customers informing them of their ineligibility for the Program and, where practicable, providing customers the opportunity to have their concerns reviewed through other avenues (e.g., the Bank's internal complaints handling department or FOS).

6.3. Sample findings

6.3.1. Customer withdrawals

From our review of the 235 cases of customer withdrawal, we identified that the cases could be broadly categorised into the following three categories:

1. Opt-out cases: These represent cases where we saw evidence that the person who had registered or expressed interest in the Program advised the Bank of his/her request to withdraw from the Program.
2. Referred cases: These represent cases that were withdrawn from the Program after the person who had registered or expressed interest had his/her case referred to the Bank's internal complaints handling department (based on the customer's concerns being identified as outside the scope of the OAR program). Each of these cases was referred prior to the person returning a *You and Your Advice* form to the Bank.
3. Non-genuine cases: These represent (non-opt-out) cases that exhibited one or both of the following characteristics:
 - o the person who had registered or expressed interest in the Program was not contactable using the information provided in the registration or expression of interest (e.g., the person's contact details were invalid); and/or
 - o the evidence on file indicates that the person never genuinely intended to register for the Program (e.g., the person's enquiry was unrelated to a possible claim of compensation and/or unrelated to concerns about advice or financial products).

Although not required within the Program's documented rules, the Bank has indicated that it will write to customers who opt-out of the Program to confirm their withdrawal, and provide them with the opportunity to re-join the Program at any time before 3 July 2015. This approach is consistent with the Program's objectives and will help ensure customers are treated fairly and consistently in the Program.

Based on the three categories defined above, we found from the population of 235 cases:

- 195 opt-out cases (83% of customer withdrawal cases);
- eight referred cases (3%); and
- 30 non-genuine cases (13%).

The two remaining cases that made up the 235 customer withdrawals could not be classified into any of the three categories noted above. Both these cases were classified by the Bank as opt-outs as at 30 April 2015, but we could not verify from the information we reviewed that the customer had elected to withdraw from the Program. In these two cases, we found no record of a clear instruction provided to the Bank by the customers to withdraw them from the Program. In light of our findings, the Bank has attempted to contact each of the customers concerned to confirm whether they would like to remain in the Program or opt-out. The Bank has also re-affirmed its position that all customers who choose to opt-out of the Program have the opportunity to re-join the Program at any time prior to 3 July 2015 (should they wish to do so).

We also found from our review of the 235 customer withdrawal cases that only 31% of these cases had been sent written confirmation of their withdrawal from the Program as at 30 April 2015. A further 14% of these cases had confirmation letters pending as at 30 April 2015. For the balance of the cases, we recognised that no written confirmation was necessary for the non-genuine cases, and cases where the customer had requested no further contact from the Bank. It was, however, unclear to us in the remaining customer withdrawal cases (approximately 40%) why written confirmation had not been sent as at 30 April 2015. The Bank has indicated that, to ensure consistency in the way opt-out cases are handled, written confirmation will be sent to the remaining (genuine) cases by 5 June 2015. The Bank has also indicated that it will update the

guidance it provides to its customer contact team to enhance the recording and management of customer withdrawals going forward.

6.3.2. Cases deemed ineligible

From our review of the nine cases that were deemed by the Bank to be ineligible as at 30 April 2015, Promontory found no material concerns with the Bank's decision to classify these cases as ineligible for the Program. For each case, the information we reviewed suggested that the customer had received advice outside the Program's Review Period, and/or had not received advice from a CFPL or FWL adviser.

We found that, of the nine cases deemed ineligible, eight of these were provided written confirmation from the Bank that their case would no longer be assessed as part of the Program. In some of these cases, the customer's concerns were referred to the Bank's internal complaints handling department for further investigation in line with the Program's processes.

We found that, in one of the nine cases, written confirmation of the customer's ineligibility for the Program had not been sent by the Bank as at 30 April 2015. The Bank has indicated written confirmation for this case was sent in May 2015.

6.4. Future sampling approach

As indicated above, Promontory has yet to commence its sampling of cases that have progressed through the Program's Assessment stage as at 30 April 2015 (other than cases we reviewed in the Pilot). Our sampling of such cases will commence shortly, and will involve significantly more time and effort to review than cases that have exited the Program prior to the Assessment stage. The additional time and effort required reflects the more complex nature of the processes involved at the Assessment stage, which Promontory must test adherence to.

In light of the additional time required to review cases that have progressed through the Assessment stage of the Program, we will undertake sampling on a structured basis using a methodology that is consistent with good industry practice. We have agreed with the Bank that the methodology we will apply to determine our sample will be based on the following key principles:

- The application of a "risk-based" method of sampling that allows Promontory to focus our review on those segments of the case population that are likely to require the greatest level of attention. This will involve segmentation of the case population by risk, so that the different risk characteristics across different segments can be taken into account.
- The use of statistical techniques (that are commonly used for quality control testing) to determine initial sample sizes for each segment of the population we review. The statistical tests will aim to allow us to make certain statements and conclusions about the potential rate of exceptions³⁹ in a population segment given the findings for the cases in our sample, up to a certain (high) degree of confidence.

³⁹ In the context of our review activities, an exception is defined as an instance of non-adherence to the Program's documented processes for the cases we review in our sample.

- The potential use of judgement overlays (i.e., adjustments to the statistical methodology) to determine additional cases that may require sampling, to the extent we find exceptions in a population segment. Such overlays will be applied to provide us with the flexibility to concentrate on those segments that may involve an inherently high rate of exceptions, while minimising the need for a large proportion of cases to be sampled in a segment that exhibits low risk characteristics.

Promontory remains in discussions with the Bank about the specific details of the sampling methodology that we will implement, including details regarding the identification and classification of the relevant segments, the statistical parameters that will apply to each segment, and the data that are required for us to implement the methodology. We will provide further details of the approach and methodology that we apply in our next periodic report, including details of our findings from our initial sample review of cases that have progressed through the Program's Assessment stage.



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