HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS (FOURTH REPORT)

Australia and New Zealand Banking Group Limited

ANZ01QON: Hansard p. 6

ANZ customer advocate

Mr THISTLETHWAITE: You may need to take this on notice, but can you perhaps give the committee some information about the number of referrals or cases that the customer advocate has looked at over the last five years in your organisation? Do you know offhand if there has been an increase?
Mr Elliott: Yes, there has been an increase, and I will give you the data; I don't have it off the top of my head.

ANSWER

Cases referred to the ANZ customer advocate

FY (Bank Year)	Retail	Wealth	Total
2014	1017	384	1401
2015	1070	406	1476
2016	1340	406	1746
2017	1189	433	1622
2018	1495	407	1902

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ANZ03QON: Hansard p. 11

Remediation

Mr EVANS: You mentioned in your opening remarks, when it comes to remediation, a figure that you'd paid out in recent weeks or months. What was it?
Mr Elliott: $374 million.
Mr EVANS: In what time frame was that?
Mr Elliott: That's a provision for the future. I'd have to come back to you on the specifics but we've already paid out many hundreds of millions of dollars. It's been paid either in refunds or penalties to customers. The $374 million is an estimate of partly refunds and partly the cost of collecting the data and managing the remediation that we know about today but is likely to happen over the next year or two.

ANSWER

ANZ expects to have paid the majority of the $374 million (either to customers or in respect of managing remediation processes) over the next 12 to 18 months. We note that more complex matters may require additional time to resolve. ANZ aims to make payments to customers at the earliest practical point.

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ANZ04QON: Hansard p. 18

Interest rates charged on breaches of contracts

Mr CRAIG KELLY: And what would a typical interest rate hike be for a breach?
Mr Elliott: I would have to come back to you. I'll take that on notice. I'm not sure. Basically the issue is that, when the risk profile of a customer changes, it's reasonable that the price of the loan changes to reflect that. And that is declared up-front and customers enter into that knowingly in advance of signing up to those contracts.

ANSWER

ANZ's answer responds to the context of Mr Kelly's question which related to a breach of a financial covenant in a small business loan.

In practice, ANZ rarely increases an interest rate as a result of a financial covenant breach, but data on this is not kept.

Financial indicator covenants are not included in over 96 per cent of ANZ business loans to small businesses. That is, they are not in standard lending contracts for small business loans from our Small Business Banking area, which are typically loans up to $1 million. These covenants may be included in loans from our Business Banking area which are typically larger business loans to small businesses (i.e. loans between $1 and $3 million).

Financial indicator covenants may be included where a small business loan is under secured, or for specialised lending transactions such as margin lending, self-managed super funds or for property development.

Where financial indicator covenants are included in a small business lending contract and a customer is in breach of such a covenant, ANZ can review the interest rate on the customer's loan. If the breach indicates a change in risk to the bank, ANZ may consider whether adjusting the price is appropriate to cater for that change in risk.

We estimate that in rare instances where the interest rate price is increased due to a deterioration in risk profile, this is below 50 basis points.

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ANZ05QON: Hansard p. 27

Debt repayment and management service

Mr KEOGH: Good. Eighteen months ago, the ABA announced its Better Banking reforms and created a nice website. One of those reforms was the debt repayment and management service. On the site, it describes it as the following: 'As part of a commitment to help customers in financial difficulty, banks are working with financial counsellors to establish a new debt repayment service for people struggling with multiple debts. This page will be updated with more details as they become available.' That was 18 months ago. Where is it up to now?
Mr Elliott: To be honest, I'd have to come back to you. I'm not sure. I'm not over the detail of the debt repayment service.
Mr KEOGH: Any idea of progress?
Mr Elliott: No. As I said, I'd have to take that on notice. I'll come back to you on the details of that.

ANSWER

In January 2017, the ABA announced a Debt Repayment Service (DRS) would be set up to assist individuals who are struggling financially with multiple unsecured debts. The DRS will provide debt arrangements across multiple banks and financial hardship support programs.

A DRS not-for-profit company has been formed (structured as a public company limited by guarantee under the business name Way Forward), initial funding has been provided by the four major banks, and a Board has been appointed. The DRS has commenced a pilot phase this month (October 2018).

The initiative is a partnership between the four major banks and Financial Counselling Australia. The Board consists of directors from each of the major banks, four consumer directors and an independent chair.

A consultancy has been working with the parties over the last year developing the business model and setting up the business.

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ANZ06QON: Hansard p. 28

Changes to small business lending

Mr EVANS: Are you aware of any areas of small business lending practices where you haven't yet implemented the changes you've committed to or are running late according to the implementation timelines?
Mr Elliott: Not to my knowledge—I'd have to check. There might be a little bit of timing slippage, but my understanding is that it's nothing material.
Mr EVANS: I'm happy for you to check that and report to us on notice.

ANSWER

ANZ is meeting its commitments to reforms to small business lending practices and is on track to meet the required timelines for changes that are still in progress.

We have simplified our main standard form small business lending contract, halving contract length, increasing safeguards for customers and limiting non-monetary default and unilateral variation clauses. We had these documents tested and certified as meeting the WriteMark Plain English Standard. WriteMark is an internationally recognised business that contributes to making documents easier to understand.

ANZ expects to complete implementation of changes to our remaining lending related documents used by small business by early 2019. Note we are not exercising any related enforcement rights in relation to the clauses being changed.

With the introduction of these changes we meet the standards of Chapter 22 of the new Banking Code of Practice (BCP). This relates to when we will not enforce a loan against a small business for non-monetary defaults, and what we will do before we take any default based action. The instances where breach of a financial indicator covenant is an event of default have been limited for small business lending customers to meet the commitments to ASIC and the BCP requirements.

We have introduced processes to provide customers with a copy of instructions and reports produced by external valuers for valuations paid for by customers and for agricultural or commercial property. Copies of investigating accountants' reports are provided by ANZ to small business customers.

For small business customers, we will provide a notice period of 90 calendar days from a decision not to extend a loan beyond its maturity before that loan can be made fully repayable. Process changes are being made and we will comply with Chapter 23 of the BCP when it commences.

ANZ's commitments related to small business lending practices were set out in a March 6 2017 letter to the Chair of the House of Representatives Economics Committee and, in addition, are being met through implementation of the new BCP. ANZ aims to implement the BCP ahead of the required date of 1 July 2019.

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ANZ07QON: Hansard p. 28

Improving access to information for small business customers

Mr EVANS: What about starting to provide some visibility or transparency to small business customers by giving them access to any, say, valuations or investigative accounting sorts of reports that you've had done on them—are you now giving small business customers access to that?
Mr Elliott: Again, I'll have to come back to you on the detail, but I believe that is absolutely happening, if it isn't already in place, yes.

ANSWER

Yes, we give small business access to valuation instructions and external valuation reports, and investigating accountant reports. Please refer to answer ANZ06QON.

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ANZ08QW: Thistlethwaite

Branch Closures

Evidence before the Royal Commission was that ANZ engaged in branch closures at a greater rate than any of the other Big 4 banks. Some documents, including one entitled Branch Options Final recommendation were tendered to the Commission

ANSWER

Please refer to answers to ANZ09QW, ANZ10QW and ANZ11QW.

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ANZ09QW: Thistlethwaite

Branch Closures

How many branches has ANZ closed so far this year?

ANSWER

ANZ has closed 44 branches so far this calendar year.

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ANZ11QW: Thistlethwaite

Branch Closures

How many branches does ANZ intend to close in the next 15 months

ANSWER

As noted in testimony on Friday 12 October, ANZ will likely close branches over the next 15 months but has not determined an overall number. We will continue to review our network and changes in the pattern of customer traffic to make decisions. In previous years, ANZ has closed 30 to 50 branches per year but it is not anticipated that this level of activity will continue.

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ANZ12QW: Thistlethwaite

CALC Case study - Maryanne Harrison – ANZ

The following is a case study provided by the Consumer Action Law Centre (CALC ref: 242938)
Maryanne is completely deaf and relies on a cochlear implant to hear.
In November 2014, Maryanne took out a loan for $13,000 with Bendigo Bank. Maryanne was also sold Bendigo LoanSure Insurance with the loan, which is provided by IAG, but she did not realise she had purchased it.
Maryanne struggled to keep up with the loan repayments. In April 2016, she refinanced her existing mortgage with ANZ because she felt that was the only way she could repay the loan. Again, the bank representative sold her consumer credit insurance with this product. As she was leaving the branch, Maryanne says that she saw the bank representative give a colleague a 'high five'. Realising that this related to the sale of the insurance policy, she quickly cancelled the policy and did not end up paying any premiums.
After assistance from Consumer Action, IAG agreed to provide a refund of the premiums paid for the consumer credit insurance purchased through Bendigo Bank.

ANSWER

ANZ has not yet been able to identify the relevant complaint and has sought the assistance of CALC. Until we have had the opportunity to review a complaint and a specific allegation of ANZ misconduct, we are unable to comment.

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ANZ requests that this response be treated as confidential as it contains detailed information on ANZ's retail performance plan

ANZ13QW: Thistlethwaite

CALC Case study - Maryanne Harrison – ANZ

What sales incentives are in place for bank staff to sell consumer credit insurance?

ANSWER

ANZ Branch Network staff performance for the first half of 2019 relates to four key result areas (KRA) (Customer – 35%, Financial and discipline – 30%, Risk and process – 20% People and reputation – 15%).

Performance is assessed by the direct manager (and approved by their manager) according to the four KRAs and additional assessment of competency and values. To be eligible to participate in the incentive program, an overall performance rating of "good" or "better" is required.

Performance against the KRAs is assessed on an overall basis, rather than by satisfaction of hard targets with respect to each KRA. For example, a staff member who did not meet their financial KRA might still receive an incentive payment if they performed at above expectations in one or more of the other three KRAs.

Managers have discretion not to make an incentive payment to staff members who, despite their performance against the KRAs, had not performed sufficiently well in relation to competency and values.

Performance against the Financial and discipline KRA is assessed by reference to five areas of ANZ's business ("pillars"), product groupings within each area ("sub-pillars"), and relevant products.

In the current period, the five pillars relevant to the financial KRA (and their respective weightings) are: Deposits (30%), Home Loans (20%), Wealth (20%), Business (20%), and Borrow – Lifestyle (10%).

ANZ currently offers two products that could be considered as consumer credit insurance products: mortgage protection and personal loan insurance. Sales related to these products are recorded under the Wealth sub-pillar outcomes (contributing 6% of the 20% Wealth component).

Product sales are relevant to the sub-pillar and pillars, which in turn contribute to the financial KRA. As noted above, an incentive payment is then determined by the relevant manager's assessment of overall performance, including in relation to competency and values (rather than simply reflecting product sales through a formula).

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ANZ14QW: Thistlethwaite

CALC Case study - Maryanne Harrison – ANZ

Do you think staff giving each other a high five after selling a product reflects the incentives in place for your staff to sell junk insurance? Do you think these kinds of incentives and behaviours are helping to improve trust and confidence in our financial sector?

ANSWER

Please refer to our response to ANZ12QW.

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ANZ15QW: Thistlethwaite

CALC Case study - Maryanne Harrison – ANZ

What is ANZ's position on the Productivity Commission's recommendations in relation to add-on insurance sales?

ANSWER

Recommendation 15.1 of the Productivity Commission *Competition in the Australian Financial System Inquiry* report states:

> *Deferred sales model for add-on insurance*
>
> *ASIC should proceed as soon as possible with its proposal to mandate a deferred sales model for all sales of add-on insurance by car dealerships.*
>
> *The deferral period should be a minimum of 7 days from when the consumer applies for or purchases the primary product.*
>
> *Following implementation, the Australian Government should establish a Treasury-led working group with the objective of comprehensively extending the deferred sales model to all other add-on insurance products, with the model set in legislation and ASIC empowered to offer exceptions on a case-by-case basis.*

ANZ does not offer an add-on insurance product through car dealerships.

We currently offer personal loan and mortgage protection insurance that may be considered as add-on insurances.

ANZ supports the new Banking Code of Practice which includes a four day deferred sales period in relation to personal loan insurance (Chapter 18, also applies to credit card insurance). The new Code has been approved by ASIC and comes into effect in July 2019, or earlier as adopted by banks.

ANZ will assist the Australian Government and regulators to consider deferral periods where we offer relevant products. We acknowledge the potential benefit of deferral periods, but also suggest that consideration of regulatory change should take into account the nature of particular products and the value to the customer.

For example, mortgage protection insurance protects against the risk of a sale of a mortgaged property if repayments cannot be made in circumstances such as the death or involuntary unemployment of a borrower. Depending on the situation of the customer (eg taking into account other forms of protection such as life insurance), the product may provide valuable risk mitigation. A deferred sale may give rise to particular issues. If a home were purchased and loan provided, the purchaser may be exposed to an unacceptable financial risk between the date of purchase / provision of the loan, and the date on which insurance becomes effective under a mandatory deferral requirement. As a result of these considerations, ANZ has not supported a deferral period for mortgage protection insurance.

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ANZ17QW: Thistlethwaite

Breach reporting to ASIC

Why has ANZ been the slowest of all big 4 banks to report breaches to ASIC?

ANSWER

ASIC Report 594 (the Report) into significant breach reporting (released on 25 September 2018) found unacceptably long periods in identifying and investigating potential compliance incidents which may require reporting to ASIC under s. 912D of Corporations Act 2001.

ANZ acknowledges these findings, and that ASIC found that the investigation phase for ANZ moved more slowly on average than in the other major banks.

ANZ does not consider that there is any single cause for this. However, historically ANZ's practice has been to investigate matters thoroughly to (among other things) inform decisions on breach reporting and we acknowledge that this has contributed to longer investigation periods in some cases. ANZ acknowledges that in some cases it has failed to quickly recognise systemic issues and elevate them to senior management for action. In some cases, underlying complexity resulting from the systems and processes applied to deliver services has been a factor.

ANZ has established an Event Management and Significant Breach Reporting Project that will examine and make changes to ANZ’s processes for identifying, managing and escalating reportable events, to reinforce a sound breach management culture and a focus on timely investigation.

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ANZ18QW: Thistlethwaite

Savings and deposit rates

You recently increased your variable home loan rates by 16 basis points – have you also passed on an increased rate for savings and cash accounts?

ANSWER

ANZ announced on September 6 that variable interest home loan rates in Australia would increase following the sustained rise in wholesale funding costs as well as consideration of business performance and market conditions. ANZ did not link the announcement to changes in savings, deposit or cash account rates.

ANZ constantly monitors and adjusts savings and deposit rates to meet our needs and as the market changes. We have made four changes to our online saver product over the past 12 months, and continuously adjust Term Deposit pricing.

ANZ notes that on average depositors have gained relative to the cash rate since the GFC. Since 2007, depositors are now being paid ~214 basis points more than they were in 2007 (again relative to movements in the cash rate). This gain is larger than the change in home loan rates over the same period: ANZ's average home loan borrowers are being charged an additional ~183 basis points (relative to the 2007 cash rate).

Customer deposits contribute half or more of the funding base for variable rate loans, the remainder of the funding base constitutes wholesale market funding (short and long-term) and equity (shareholders capital and retained earnings).

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ANZ19QW: Evans

Small business lending practices

Your organisation has made a number of commitments to change its practices regarding small business lending, including changes recommended by this Committee, the Small Business & Family Enterprise Ombudsman, ASIC and others. Are there any commitments regarding small business lending practices where your organisation has failed to make the required changes, or failed to make the required changes in the timeframe committed to?

ANSWER

No. Please refer to the answer to ANZ06QON.

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ANZ20QW: Evans

Bank employees

a. How many employees does your organisation have?
b. How do you judge the impact of events over the past year or so, including these hearings and the Royal Commission and public commentary, on your employees?
c. Have there been issues in your organisation concerning bullying or harassment as a result of the Royal Commission or other events over the past year or so?

ANSWER

a. Employee numbers

As at 30 September 2018, the ANZ Group had 39,924 full time equivalent employees.

b. Impact of events on employees

Employees at all levels of ANZ are very aware of the Royal Commission and related issues. They have expressed disappointment, shock and frustration at hearing the proceedings and case studies. Staff are conscious of the poor public perception of banks and an emerging stigma of working for a bank. Many feel frustrated or embarrassed about regularly needing to defend the bank to friends, family and community members, and that their efforts to help customers have been unrecognized publicly.

As noted below in response to part c of this question, we have also seen an increase in the incidence of 'externally-driven' incidents. We attribute this to changes in the general community view of the banking industry and recognise that it will impact staff. We provide training on preventing and managing these incidents, and support staff, for example by providing specialist services like the Employee Assistance Program.

c. Bullying and harassment

The level of customer aggression or violence against ANZ staff in Australia has risen, noting that we have been encouraging staff to report incidents. We consider that there has been some trend upwards, which we do not attribute to particular events. The number of reported incidents increased to 737 in the 2018 bank year, an increase of ~50% from 2017. The banking industry definition of incidents includes verbal abuse or intimidation, property damage, threats or assaults.

There is no evidence of an increase in 'internally-driven' incidents (for example, related to workplace harassment or stress) over the last year in our management reporting.

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ANZ21QW: Wilson

Mortgage statistics

Does the bank have any data on the number of mortgages held on property that are negatively geared? If so, what?

ANSWER

ANZ does not collect or generate data that identifies whether a mortgage is negatively geared.

ANZ does not monitor the rent received by the borrower through the life of the loan or the non-loan expenses associated with a property that would allow the borrower to claim an income tax deduction in respect of it.