ANZ RESPONSE TO THE
RETAIL REMUNERATION REVIEW ISSUES PAPER

FEBRUARY 2017

INTRODUCTION

ANZ welcomes the opportunity to respond to the Retail Remuneration Review Issues Paper (**Issues Paper**). ANZ supports the approach of the Review and believes that it is highlighting important issues for consideration by each bank, and the industry and the wider community. The responses below are to the questions noted in the Issues Paper, using the numbering system of the Paper. Our responses relate to the ANZ Australian Retail Banking (consumer) Business unless indicated otherwise.

6.1. THE ROLE OF TARGETS

1. Is there a realistic alternative to setting targets as an aid to the management of a large organisation?

Is there a realistic alternative to setting sales targets?

To consider this question, ANZ has conducted a test and learn trial in one of our Retail Banking districts (consisting of 10 branches and ~50 branch sales staff) over the past 15 months. During the trial, staff performance measures and objectives were changed so that sales targets were removed from incentive plans and replaced with customer-based metrics.

For example, staff taking part in the trial were assessed on net promoter score (an index that measures customer satisfaction), customer responsiveness to offers and the quantity and quality of conversations with customers about their banking needs conducted using our proprietary "A-Z review" tool. The A-Z Review tool is used to identify customer goals and their underlying needs and to identify suitable solutions to meet those needs.

The trial was well received by customers with feedback showing increased levels of customer satisfaction with their branch experience. There was good staff engagement.

A number of performance objectives from the pilot have been incorporated into incentive plans for frontline staff for the FY17 financial year, including the quantity and quality of A-Z Reviews, and increasing the relative weighting of customer objectives.

However, overall sales numbers declined (across deposit products, home loans, wealth management products, and business products) compared to the same period prior to the trial. The district also performed worse on sales than the average across the entire Australian branch network.

The trial highlights the challenge of tracking and coaching performance for frontline staff in the absence of sales results and sales targets. This was something that our staff found frustrating as 'the loop was never closed', that is they could not be sure if they had successfully helped the customer. Data on customer feedback and processes are available, but customer outcomes are unclear.

The overriding conclusion for ANZ is that there is a role for sales targets and that incentive plans that take into account 'whole of role' performance through a balanced scorecard approach are likely to be optimal.

The outcomes of the pilot have underpinned our future approach to frontline sales incentives. We are now introducing a new balanced scorecard incentive plan for Retail Banking frontline sales staff in our branches and contact centres from April 2017 (**2017 Retail Plan**). The plan focuses on customer, team work and 'well managed' metrics (~70%), as well as staff sales performance relative to target (~30%).

Is there a realistic alternative to setting any types of targets?

Our view is that it would be very difficult to operate a commercial enterprise that has obligations to its customers, bankers, shareholders, community and regulators without some form of targets.

As an organisation, we set targets (and have targets set for us) in many different areas such as the amount of capital we hold, employee engagement, gender, customer satisfaction, liquidity and financial returns. Staff expect this and are able to manage to this approach.

As we have outlined above, we believe the best approach is to set targets that deliver balanced outcomes for our customers, bankers and shareholders and making sure the weighting of those targets are appropriate. That is the approach we have taken in our new 2017 Retail Plan.

2. What is the appropriate role of targets in managing performance and assessing rewards payable to an individual?

As outlined in our answer to question 1, we believe there is a role for sales targets (and targets generally) in the incentive structures for frontline Retail Banking sales staff.

We have moved to balanced scorecard incentives structures that better balance customer, banker and shareholder outcomes. As noted above, the 2017 Retail Plan will have a ~30% weighting on performance relative to sales targets and a ~70% weighting on customer, team work and well managed outcomes.

We place equal weight on 'how results were achieved' as well as 'what was achieved'. We have a clear set of organisational values and a purpose that forms part of our culture and set standards of behaviours that need to be met for an employee to be eligible for an incentive payment.

We have moved away from incentive plan structures that are solely based on sales performance relative to target or that include financial gateways.

3. What is the nature of the risk attached to setting targets that are sales- or product-related compared to others such as service metrics? (See also section 6.2 below.)

If targets are heavily focused on, or have aggressive targets for, certain types of product sales, then there is a risk of gaming and misalignment between sales targets and customer outcomes.

This risk of gaming will arise for different types of targets (noting greater risk to the customer is likely when a customer buys a financial product). For example, a customer satisfaction target can be gamed if an employee attempts to influence how a customer answers a survey.

ANZ has controls in place to protect against gaming of measures and resulting poor customer outcomes. A number of these were noted in the Issues Paper. They include:

- relative mix of fixed and variable pay
- product quality measures (ie did the customer actually use the product)
- our A-Z Review customer needs based conversation
- cancellation reporting
- mystery shopping and quality assurance frameworks
- real time customer feedback and complaints monitoring
- active coaching of our frontline bankers
- compliance gateways
- values overlay
- deferral and clawback mechanisms (in place at ANZ since 2009).

We believe that a critical factor is getting the right balance between sales and service targets and the related alignment of targets to incentive plans. To achieve this, we are changing our Retail Banking frontline sales incentive schemes and moving to a balanced scorecard discretionary incentive plan from April 2017.

4. Is such a risk lowered if targets are set and eligibility for rewards is assessed less frequently (e.g. annually compared to monthly)?

Our view is that there are advantages and disadvantages associated with both frequent and infrequent incentive cycles.

Frequent incentive cycles provide a structure for more regular feedback and performance coaching. They may mean there is less opportunity or incentive for manipulating sales timing, such as:

- trying to force customer sales through to qualify for one big payment at the end of the year); or
- holding sales over to the next cycle if the target cannot be met in current cycle.

Infrequent cycles, on the other hand, can mean there is greater room for training and coaching over the course of the year and more time for a banker to deliver on their outcomes.

At ANZ we are moving to less frequent incentive payment cycles for our Retail Banking frontline sales staff.

- Our generalist sales staff are currently on a quarterly cycle and they will move to half yearly from April 2017.
- Our specialist home loan sales staff are currently on a monthly cycle and will move to quarterly from April 2017 and then to half yearly from October 2017.

Our decision to move to less frequent incentive payment cycles was not based on a perceived frequency risk. The decision was part of a suite of changes to our Retail Banking frontline sales incentive plans as we move to a balanced scorecard and more closely align retail incentives with other corporate ANZ incentive plans. It helps to reduce complexity and reduces the overall number of plans in operation.

6.2. DOES SIZE OF REWARDS OR THEIR STRUCTURE MATTER MOST?

5. How best can we address the trade-off between simplicity, on the one hand and, on the other, elements to guard against the risk of incentivising poor outcomes for customers?

We believe that the alignment of performance management and remuneration frameworks is key to providing simplicity and balance for our staff. This can be best achieved through a balanced scorecard, supported by an aligned discretionary incentive plan.

The scorecard approach enables managers to establish performance objectives that reflect the breadth of the role and then reward staff with incentives based on their 'whole of role' performance against them. As noted above, this underpins the 2017 Retail Plan.

In October 2016, we redefined performance expectations for our frontline Retail Banking sales staff to continue to ensure we deliver balanced outcomes for our customers, bankers and shareholders. The move to a discretionary incentive plan strengthens the alignment of our performance and remuneration frameworks.

Our new discretionary incentive plans:

- do not incorporate the potential issues identified in the 'Retail Remuneration Review: Issues Paper' being accelerators, modifiers, financial gateways, product specific payments and cross sell incentives; and
- still allow for the differentiation of performance, with guidance provided to our line managers and bankers on what Outstanding, Strong and Good performance looks like and incentive payments that are scaled to those performance bands.

We place equal weight on 'how results were achieved' as well as 'what was achieved'. We have a clear set of organisational values and a purpose that forms part of our culture and set standards of behaviours that need to be met for an employee be eligible for an incentive payment.

These represent 'gateways' for incentive payments and are values and behaviours driven and not financially based. We highly recommend retaining these types of values and behaviour driven 'gateways'.

6. Should banks discontinue the practice of using accelerator-type payments?

The 2017 Retail Plan is discretionary in nature and does not incorporate the potential issues identified in the Issues Paper, namely those potentially arising from accelerators, modifiers, financial gateways, product specific payments and cross sell incentives.

We generally support a move away from accelerator-type payments in branch and contact centre channels. We would welcome the opportunity to work with regulators, the industry and relevant stakeholders on this topic.

7. If yes, what other devices are suitable to reward high performers?

We have redefined performance expectations for our frontline Retail Banking sales staff to make sure we deliver balanced outcomes for our customers, bankers and shareholders.

To be a high performer, our bankers will need to focus on all aspects of their role with 70% weighting on customer, team work and well managed outcomes and a 30% weighting on performance relative to sales targets.

Our new incentive plans still allow for the differentiation of performance. We have provided guidance to our line managers and bankers to help them assess Outstanding, Strong and Good performance and on the incentive payments that are scaled to those performance bands.

Incentive payments for high performers will be capped (ie a maximum cap) in the 2017 Retail Plan. This is consistent with our current approach.

8. Should banks discontinue the practice of applying gateways to incentives payments based on the achievement of financial measures?

As outlined above, the 2017 Retail Plan does not incorporate the potential issues identified in the Issues Paper being those potentially associated with accelerators, modifiers, financial gateways, product specific payments and cross sell incentives.

As noted in our response to question 6, we place equal weight on 'how results were achieved' as well as 'what was achieved'. We have a clear set of organisational values and a purpose that forms part of our culture and set standards of behaviours that need to be met for an employee be eligible for an incentive payment.

These represent ‘gateways’ for incentive payments and are values and behaviours driven and not financially based. We highly recommend retaining these types of values and behaviour driven ‘gateways’.

We support a move away from financial gateway type payments in branch and contact centre channels. We would welcome the opportunity to work with regulators, the industry and relevant stakeholders on this topic.

9. Should banks discontinue the practice of assessing performance and eligibility for rewards on the basis of product-based payment? If yes, on what basis?

Please refer to our answers to questions 5, 6 and 8.

10. Alternatively, should banks limit the weight applied in total to financial measures to, say, 35% in these assessments?

As noted above, ANZ supports a balanced scorecard approach in branch and contact centre channels. Our 2017 Retail plan has a weight on staff sales performance relative to target of ~30%.

At an enterprise level, ANZ has guidelines in place that set out that no one performance quadrant (Financial and Discipline, Customer, Risk and Process and People and Reputation) can be greater than 50%.

11. Should banks discontinue the practice of applying cross-sales gateways or modifiers?

Please refer to our answers to questions 5, 6 and 8.

12. If yes, what other approaches are available to encourage and reward staff that assist customers to identify and meet their needs?

Our A-Z Review tool enables our bankers to have a goals and needs based conversation with customers rather than focus on specific products up front. Our customers provide us with feedback on their A-Z Review experience. We have performance metrics in place for our bankers related to the quality and quantity of A-Z Reviews. This helps to encourage and ultimately reward staff to focus on customer needs.

Please refer to our answer to question 7.

13. Are cross-sales incentives more likely to lead to poor outcomes for customers than general sales targets?

Cross-sale targets that are structured as gateways (i.e. must achieve a cross sell target to get an incentive) may lead to poor customer outcomes. This may be the case where customers are sold products that they did not need or understand by an employee who is seeking to meet a target.

ANZ has moved away from the use of cross sell gateway metrics for frontline Retail Banking sales staff. We have controls in place to protect against mis-selling issues (please refer to our answer to question 3).

14. What is the best way to mitigate any risk that business unit/branch-based targets will lead to inappropriate pressure on individuals to mis-sell?

Please refer to our answers to questions 3, 5, 6 and 8.

ANZ has an annual Incentive Plan effectiveness review which is managed by the Group wide HR and Compliance functions. The effectiveness review specifically assesses any risk of mis-selling as a result of the plan and the specific incentive related controls the business has in place to mitigate risks.

15. Is there a case for banks to adopt scorecard-based approaches in order to minimise the risks of mis-selling? If so, why?

We believe there is a case to adopt scorecard-based approaches. They are key for aligning performance management and remuneration frameworks, reducing complexity, and continuing to deliver fair and balanced outcomes for customers, bankers and shareholders.

As noted in our answer to question 1, we conducted a 'test and learn' pilot to trial a different approach to frontline incentives and measuring performance. We determined that a balanced scorecard approach to managing performance, supported by an aligned discretionary incentive plan, was the approach we would adopt for our frontline Retail sales staff in Branch and Contact Centre channels.

A balanced scorecard enables managers to:

- establish performance objectives ('the what') that reflect the breadth of the role (including Customer, Financial, People, Process/Risk objectives); and
- reward staff with discretionary incentives based on their 'whole of role' performance, including an assessment of values and behaviours ('the how').

This means that all performance expectations are considered when determining incentive payments. We believe this best supports the continued achievement of fair and balanced outcomes for customers, bankers and shareholders.

We incorporated learnings from the pilot into the design of 2017 Retail Plan. It has helped us to reduce the complexity and number of our existing incentive plans and align our incentive plans across our Branch and Contact Centre channels.

ANZ supports the use of a balanced scorecard approach to assessing performance and determining incentive payments in the Retail Banking proprietary channels.

16. Are there any market or other impediments to such a development, including in respect of mortgage brokers or other home lenders? How might any such impediments be addressed?

We do not see any impediments to banks implementing a balanced scorecard approach to performance and incentives in their proprietary channels.

Banks have the ability to review their approaches to performance management and remuneration at any time. They can amend them as required to meet their strategic objectives, and meet regulatory and other requirements.

The likely greatest implementation challenge is driving cultural change (as highlighted in the 'Issues Paper') to ensure management practices are aligned to performance and remuneration frameworks. There is a risk that deeply ingrained sales practices in organisations may be slow to change.

This is a much more complex issue in third party market channels (including broker) due to the competitive nature of that market, the business models and the market driven remuneration arrangements in place.

As the Issues Paper highlighted, ASIC has recently completed an extensive Review of the Mortgage Broking Industry including its remuneration practices. ANZ understand that the results of the Review may be available shortly.

ANZ aims to work with regulators, the mortgage broking industry, and banking and finance peers to ensure remuneration practices promote good customer outcomes.

17. Should banks adopt the principle that sales incentives should be 'product neutral'?

At ANZ we focus on the importance of customer needs. Our A-Z Review tool enables our bankers to have a goals and needs based conversation with customers rather than focus on specific products up front. Our customers provide us with feedback on their A-Z Review experience and we have performance metrics in place for our bankers around the quality and quantity of A-Z Reviews. This helps to encourage and ultimately reward staff to focus on customer needs.

We do set sales targets for our Retail Banking frontline sales staff at a product level but they are set at the higher end of the product hierarchy.

- For example our bankers may have targets around credit card sales but not specific targets around what types of credit cards to sell. Whether they sell a low rate credit card or rewards card, it is considered one sale.

This helps to ensure the customer is provided with the product that meets their needs. We also don't promote the profitability of our respective products with our bankers so that they focus on the customer need rather than product specific outcomes.

We do however recognise that some product sales have higher importance to customers and involve more relative effort than others (e.g. home loans). We take this into account when we set targets.

On this basis, we do not consider that a 'product neutrality' approach is practical or would necessarily lead to a good customer outcome. As outlined above, we believe that the approach taken to our 2017 Retail Plan is the best way to achieve a good customer outcome.

Please also refer to the example controls outlined in our answer to question 3.

18. If yes, how is that neutrality best established?

Please refer to our answer to question 17.

19. Should banks discontinue the practice of applying accelerator-like arrangements?

Please refer to our answer to question 6.

20. What conditions need to be met to ensure that Manager discretion is exercised in ways that minimise the risk of poor outcomes for customers?

A set of performance objectives across bankers and leaders that are balanced, aligned and focussed on customer outcomes is critical. Otherwise this could create cultural misalignment, complexity for the banker and line manager, and an increased risk of poor customer outcomes.

Manager understanding and advocacy for the performance management framework is important. As part of the change management approach for our 2017 Retail Plan, we have spent considerable time with our line managers explaining why we are changing, building advocacy and making sure change is led and embedded by our line managers.

Leaders focusing on both the 'how it has been achieved' and 'what has been achieved' is also critical to minimise the risk of poor customer outcomes.

Following through with training and coaching that aligns to performance expectations is also a key condition. Highlighting examples of bankers that have demonstrated a strong focus on customer outcomes is important.

'Skip' line manager (ie the manager above the immediate line manager) and central support is also important to ensure performance management is fair and delivers balanced outcomes.

6.3. SHOULD BANK OBLIGATIONS BE STRENGTHENED?

21. Should the regulatory framework for retail banking be strengthened? If so, then how?

Please refer to our answer to question 22.

22. Are further changes required to the regulatory environment to reduce the information gap between a seller and the retail purchaser?

Australia has a strong regulatory framework that provides comprehensive protections for retail banking consumers, including measures that address information asymmetry between purchaser and seller. Further, Government and industry are currently exploring further measures that could provide additional protections and decision aids for consumers.

Before assessing whether the regulatory framework needs strengthening, the impact of these additional measures, if implemented, should be assessed.

Current framework

As noted by the Review, the current framework includes extensive ex ante disclosure of the attributes of financial services and products to help consumers decide. There are modifications to the regime where it is accepted that consumers already have sufficient information or understanding about a product (eg basic deposit products). The integrity of this disclosure is underpinned by offences concerning misleading and deceptive conduct and defective disclosure (see discussion below in response to question 32). These address the information gap between product issuer/distributor and purchaser.

In addition, there are obligations imposed on:

- Retail credit providers to provide detailed pre-contractual disclosure and to ensure customers are not provided with credit that is unsuitable;
- Providers of personal advice concerning financial products to act in the best interests of their retail customers; and
- Subscribers to the ePayments Code and Code of Banking Practice to provide upfront and ongoing disclosure.

Future framework

Significant additional proposed measures that are posited as further protecting and aiding retail banking consumers include the following:

- New obligations for entities that issue or distribute financial products – these could require issuers to:[1]
  - Identify appropriate target and non-target markets for their products (e.g. does a product satisfy a need of the market and can the market understand the product);
  - Select distribution channels and marketing approaches for the product that are appropriate for the identified target market;
    - This could include testing disclosure to ensure it is effective as well as managing conflicts to identify the risk of mis-selling from remuneration practices;[2]
  - Review the product and distribution channel to ensure they remain appropriate after the sale of the product.
- A power that would allow ASIC to temporarily ban product and service features.[3]

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[1] The Australian Government the Treasury *Design and Distribution Obligations and Product Intervention Power* (December 2016)
[2] Ibid, 24.
[3] Ibid, 30.

- Possible reforms to credit card regulation.[4]
- The review of the *Code of Banking Practice*, including recommended changes to:[5]
  - Revise the Code to set out customer rights and bank obligations more clearly in 'plain language';
  - Provide customers with more prominent, timely and sufficient information about products and options available if they are experiencing financial difficulty; and
  - Improve transparency in relation to particular aspects of responsible lending and credit cards.
- Possible enhanced data availability for consumers which may allow them to understand their historical product and service usage and compare products via comparison services (further reducing information asymmetry between issuers and consumers).[6]

We would prefer to see these measures consolidated and, if implemented, their impacts assessed before additional policy initiatives are explored.

23. Is the legal distinction between the 'provision of information', 'general advice' and 'personal advice' useful or effective in the retail banking context?

The distinction between general and personal advice currently serves to graduate the obligations imposed on advisors, including the level of disclosure that is given to retail customers and the duty of care with which advisors need to act.

We think that it is important for consumers to understand and have their interests taken into account when receiving advice that reflects their circumstances. This would suggest that it is important that the appropriate protections that flow from advice being 'personal' should be retained.

We note that the term 'general advice' has been identified for review by Government as a result of the *Financial System Inquiry*. ANZ has stated its support for this recommendation. The term 'General Advice' should be replaced by a term better understood by consumers and developed following appropriate consumer testing.

24. Having regard also to the mitigation strategies available to banks, is there excessive risk of mis-selling attached to the practices outlined in Chapters 3 and 4 regarding incentives to retail banking staff and third parties that act on behalf of banks?

Mis-selling can occur for a variety of reasons, including remuneration practices that are not appropriately managed. However, banks have a broad range of risk

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[4] The Australian Government the Treasury *Credit cards: improving consumer outcomes and enhancing competition* (May 2016)
[5] http://cobpreview.crkhoury.com.au/terms-of-reference/
[6] Parliament of the Commonwealth of Australia *Review of the Four Major Banks: First Report* (November 2016), xviii; Productivity Commission *Data Availability and Use* (October 2016)

mitigation strategies available to them and, as noted earlier, Australia has a strong regulatory framework and further reforms are now in train. It is thus difficult to categorically state that there is excessive risk of mis-selling when taking that broad range of mitigation strategies and the regulatory framework into account.

That said, ANZ believes that it is important that banks and the regulatory agencies constantly assess the risk of mis-selling and take steps to address it.

6.4. WHAT IS THE DIFFERENCE BETWEEN A 'SALES' AND A 'SERVICE' CULTURE?

25. What constitutes a 'service' culture in the retail banking context?

We believe that understanding and meeting our customers' needs is at the centre of a 'service' culture. ANZ wants to become Australia's best bank in the eyes of our customers.

Our focus on the importance of understanding customer needs during A-Z Review conversations enables our bankers to have a goals and needs based conversation with customers. Our customers provide us with feedback on their experience and we have performance metrics in place for our bankers around the quality and quantity of A-Z Reviews. This helps to encourage, and ultimately reward staff to focus on meeting customer needs and providing a quality customer service experience.

All our Branch and Contact Centre staff are there to serve the customer. Currently, customers are referred by Service Consultants to the appropriate Banker, e.g. Personal Banker or Home Lending specialist to understand and fulfil their needs.

We are also now working on a test and learn pilot to trial the concept of a 'Universal Banker'. This aims to test whether customer experience is improved by removing the delineation between sales and service roles so that a customer's need are met by one banker.

We have also recently introduced five 'Customer Promises' to support and guide us to deliver exceptional customer service. They were developed by our ANZ front line bankers:

- I will be welcoming
- I will be interested
- I will be caring
- I will be accountable
- I will be appreciative.

Our Customer Promises seek to put the customer at the heart of everything we do. They build on all the good things we already do today, helping us to deliver good experiences for our customers – whether in a branch, on the phone or through our digital channels. Our customers tell us they want to feel valued, respected, that they are getting good advice and that we are reliable.

26. What approaches to performance management and rewards and incentives are most conducive to achieving it?

We believe there is a strong case to adopt balanced scorecard-based approaches to support the achievement of a 'service' culture. We believe this approach is key to aligning performance management and remuneration frameworks, reducing complexity in incentive plans and continuing to deliver fair and balanced outcomes for customers, bankers and shareholders.

Please refer to our previous answers to questions 1 and 15.

6.5. WHAT ROLE MAY THE REMUNERATION ARRANGEMENTS APPLICABLE TO VERY SENIOR MANAGERS PLAY IN CONDITIONING THE BEHAVIOUR OF FRONTLINE STAFF?

27. What weight should be attached to sales targets in the assessment of the performance of a bank's most senior executives?

We use a balanced scorecard approach to set objectives and targets for senior executives. Sales objectives and targets cannot be looked at in isolation from the other objectives and targets set for senior managers across the scorecard categories.

We have 4 scorecard categories: 1) Financial and Discipline, 2) Customer; 3) Risk and Process and 4) People and Reputation. All senior executives will have objectives and targets set for them that are interdependent across all four categories of the scorecard.

Sales targets would typically relate to one (of up to three) objectives under the 'Financial and Discipline' category. This category focusses on balancing growth and return, over the short and long term, to deliver consistently strong results. Currently, we recommend a weighting range of 15% to 50%. The actual weighting will depend on the role of the employee.

The 'Financial and Discipline' category would typically include more than one objective, so the weighting assigned to sales objectives and associated 'sales targets' would only be one component of the 'Financial and Discipline' category.

- For example, for our Retail Australia Branch Executive roles in 2017, 'Financial and Discipline' category would typically have a weighting of around 25%. The sales targets that would typically be included under 'Financial and Discipline' are a combination of product based, sales revenue and 'funds under management' type measures.

For the 'Customer' and 'People and Reputation' categories we also recommend a weighting range of 15% to 50%. To reinforce the importance of Risk, the minimum weighting for 'Risk and Process' is 20% (up to 50%).

Each year we set our objectives and targets for individual executives in the context of our strategy and the external environment. Over the last couple of years, this has resulted in changes to the weighting assigned under each category across different businesses.

Our Performance Management framework applies to all our most senior managers and the different nature of these roles across ANZ (from frontline to middle and back office). We do not believe that there should be a specific weight attached to any category of the balanced scorecard (or objective or target within it).

We also note all staff including senior executives are subject to conduct policies which will impact on their performance and remuneration. These policies describe expected standards that are to be met by employees and details consequences where standards are not met. These consequences include financial consequences, potential termination and/or referral to a relevant external body. ANZ may also exercise discretion to make a downward adjustment to unvested deferred remuneration (clawback) where appropriate.

28. What are the key principles that banks should apply in designing the incentives that apply to their most senior executives?

We are currently reviewing the key principles that will help guide our remuneration approach for all ANZ employees, taking into account the fast changing nature of the financial services environment.

The objective of the review is to identify a reward philosophy for ANZ that is aligned with ANZ's desired culture and organisational purpose. This purpose is 'To shape a world where people and communities thrive. That's why we strive to create a balanced, sustainable economy in which everyone can take part and build a better life'.

The key principles we are looking at includes: fairness, consistency and equity, and encouraging appropriate behaviour (but not risk taking). We plan to complete this review in 2017.

Outlined below are the current principles which guided our approach to remuneration in 2016.

> "In assessing performance and allocating incentives to senior executives, we take into consideration the Values ratings given to the employees (across our 5 values of Integrity, Collaboration, Accountability, Respect and Excellence). While it is important an employee meets their objectives (the what), the way in which those objectives are achieved (the how – as measured by our Values) is equally as important.
>
> ANZ's Remuneration Policy shapes the Group's remuneration strategies and initiatives, the primary objectives of which are to:
>
> - Create and enhance value for all ANZ stakeholders
> - Provide a competitive reward proposition to successfully attract, motivate and retain the highest quality individuals required to deliver ANZ's business and growth strategies

- Differentiate rewards in line with ANZ's culture of rewarding for out-performance and values based behaviours, while ensuring avoidance of inappropriate risk and utilising a balanced scorecard of measures
- Emphasise "at risk" components of total rewards which are designed to encourage behaviour that supports:
- Outperformance
- The long-term financial soundness of ANZ
- The risk management framework of ANZ
- Deliver fair and ethical outcomes which include fair customer outcomes, supporting and enhancing the integrity of markets within which ANZ operates and seeking to avoid conflicts of interest
- Ensure compliance with Australian Prudential Standards and ASX Principles and Recommendations."

6.6. ISSUES SPECIFIC TO REMUNERATION OF THIRD PARTIES

29. Is there sufficient evidence to support a case for banks to discontinue the practice of paying volume-based commissions to third parties in respect of new and increased mortgages?

Over the last 10-15 years, we have seen a significant increase in the number of consumers across the industry choosing to use a broker, rising from 25% in 2003 to approximately half of all mortgages originated in the market.[7] This indicates that consumer value the services provided by third parties such as brokers and mobile lenders.

As the Issues Paper highlighted, ASIC has recently completed an extensive Review of the Mortgage Broking Industry including its remuneration practices. ANZ understand that the results of the Review may be available shortly.

ANZ aims to work with regulators, the mortgage broking industry, and banking and finance peers to ensure remuneration practices promote good customer outcomes.

30. If a move away from commissions cannot be justified, should banks desist from paying on the basis of accelerator-like arrangements (including bonus commissions)?

Please see above.

[7] Observations on the value of mortgage broking. Prepared for the Mortgage & Finance Association of Australia, May 2015.

31. Is there evidence that the contractually based risk mitigation devices available to banks in respect of third parties are deficient in avoiding poor customer outcomes?

While no systemic issues have been identified, ANZ has initiated programs to improve its monitoring and oversight of lender sales practices and conduct across both its proprietary and third party channels. This aims to identify situations where poor customer outcomes might have been influenced by remuneration structures. ANZ acts swiftly and decisively in any cases where this behaviour is identified.

6.7. WHAT IS A POOR CUSTOMER OUTCOME (AND WHAT IS THE LINK TO AGENT REMUNERATION)?

32. What do you think of the adequacy of adopting the FSA's approach for the purpose of defining a poor customer outcome?

ANZ agrees that it is important for Australia's regulatory framework to rest upon clear understandings of good and poor customer outcomes.

As set out in the following table, existing and anticipated Australian law already imposes obligations that are analogous to the component outcomes that the then-Financial Services Authority (FSA) required and which are cited by the *Review*. As such, we would suggest there is no additional utility in explicitly adopting the FSA's approach.

Instead, we would suggest that the appropriateness of remuneration practices be assessed against existing and anticipated Australian legal standards.

FSA fair outcome	Australian law
Customers are treated fairly	Section 912A(1)(a) Corporations Act 2001 (Cth) requires that financial services '…are provided efficiently, honestly and fairly'. Section 47 of the National Consumer Credit Protection Act imposes similar obligations on credit providers. Unfair contract terms provisions in the ASIC Act provide protections for consumers of financial products and services, including credit products. Sections 76 and 78 of the National Credit Code also include specific protections in respect of unjust transactions and unconscionable interest or other charges.
Customers understand the key features of the product or service and whether or not they are being given advice or information & Customers are given information that is clear, fair and not misleading – information that enables them to make an informed decision before purchasing a product or service or before trading	Parts 7.7 and 7.9 Corporations Act contain extensive obligations on entities providing personal and general financial advice and selling or issuing financial products. Essentially, customers are entitled to a: • Financial services guide when receiving financial advice; • A statement of advice when receiving personal advice; and • A product disclosure statement when purchasing a financial product. The content of these documents is prescribed (eg s942B for financial services guides, s947B for statements of advice and s1013D for product disclosure statements). Customers will understand when they are being given advice because they will receive a statement of advice in accordance with s946A. There are multiple obligations within the Corporations Acts that require customers receive information that is not misleading, including s1021D concerning defective disclosure, s1041H concerning misleading or deceptive conduct in relation to a financial product or service and s12DA ASIC Act 2001 (Cth) again concerning misleading or deceptive conduct. The ePayments Code and Code of Banking Practice also include requirements for subscribers to provide up front and

	ongoing disclosure in relation to products and services. In respect of consumer credit, there are comprehensive pre-contractual disclosure requirements on credit providers contained in the National Consumer Credit Protection Act and Consumer Credit Code. These include obligations to provide consumers with a Credit Guide, and with detailed information about a proposed credit contract before it is entered. The National Credit Code imposes a Comparison Rate regime for the advertising of credit products, and imposes ongoing disclosure obligations on credit providers. Further, we note that Treasury is currently consulting on an obligation that would be imposed on product issuers and distributors to ensure that appropriate distribution channels and marketing approaches are used.
Customers buying on an advised basis are recommended suitable products	Section 961B requires that providers must act in the best interests of a client in relation to personal advice. In addition, there are the specific responsible lending obligations concerning credit products.

33. Is there evidence that the risks of mis-selling are currently significant, not sufficiently mitigated by existing strategies, and systemically important?

As discussed in response to the prior question, Australia's current regulatory framework already contains strong protections against the risk of mis-selling. These include the disclosure and best interests obligations as well as the responsible lending obligations for credit products.

We also note the proposed policy measures discussed in response to questions 21/22. If enacted, these would be significant new additions to Australia's law and reflect post-crisis developments in consumer protection regulation in the European Union. Whether any residual mis-selling risk in Australia's regulatory framework exists should be assessed after the implementation of these measures.