COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Australia's four major banks and other financial institutions: four major banks

FRIDAY, 15 NOVEMBER 2019

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Friday, 15 November 2019

Members in attendance: Dr Aly, Mr Craig Kelly, Dr Leigh, Dr Mulino, Mr Tim Wilson.

Terms of Reference for the Inquiry:

To inquire into and report on:

The Standing Committee on Economics will review Australia's four major banks and other financial institutions. Specifically, the committee will inquire into matters relating to:

- how financial institutions deal with their customers, including indigenous customers, on specific issues and ensure they do not charge default interest on loans secured by agricultural land when there is a drought or natural disaster declaration (recommendations 1.8 and 1.13), and to deal appropriately with distressed agricultural loans (recommendation 1.14);
- the approach taken by financial institutions to review and regularly assess culture, governance and remuneration arrangements, as required under recommendations 5.4 and 5.6, to ensure that these not only comply with the law but also meet community expectations;
- implementation of the recommendations of the Sedgwick Review as they concern staff remuneration (recommendation 5.5);
- remediation of customers in a fair and timely manner following conduct that has fallen short of the law or community expectations; and
- actions being taken by institutions to put customers at the heart of their business and to achieve the letter and spirit of the Royal Commission's recommendations.

WITNESSES

CHRONICAN, Mr Philip, Group Chief Executive Officer, National Australia Bank

LENNON, Mr Gary, Group Chief Financial Officer, National Australia Bank

Committee met at 09:17

CHAIR (Mr Tim Wilson): I now declare open this hearing of the House of Representatives Standing Committee on Economics for the review of Australia's four major banks and other financial institutions. Given the widespread misconduct across the financial services sector identified by the Hayne royal commission, it is important that financial institutions are held accountable to ensure that they make the crucial improvements needed to restore trust in our financial institutions. This is the second time the four major banks have appeared before us following the handing down of the Hayne royal commission final report. It is the first time the four major banks have appeared before the committee during this parliament as part of its review, and follows five rounds or hearings that were held during the previous parliament.

These hearings provide an important mechanism to hold the banks and other financial institutions to account before this parliament. This committee's scrutiny will include examining the banks' progress in implementing Commissioner Hayne's recommendations, and we are well aware that not all recommendations have been acted upon to date—some take time, some require legislative introduction and some of it we will continue to review in our hearings throughout the remainder of the term. Beyond actions taken by the sector, Treasurer Frydenberg has released a royal commission implementation roadmap which outlines how the Morrison government will move on all recommendations requiring legislation by the end of 2020, with one-third planned to be finalised this year.

Representatives of the National Australia Bank and ANZ will be appearing today and follow the appearance of Westpac and CBA at last Friday's hearing. As part of the review, the committee will extend its scrutiny beyond the four major banks to smaller banks and the insurance, superannuation and financial advice sectors.

I would like to outline a number of matters related to the conduct of today's hearing as well as this entire inquiry, which is that we indicated last week that we encourage witnesses to provide succinct and direct answers to make sure that we can have a full discussion and that we reserve the right, of course, to have recalls if we feel that answers are not being properly provided or required and we have already done that to APRA in a different context related to their annual report, and their questions are being submitted on notice prior to and, no doubt, will follow also any hearings.

I refer members and witnesses to the House resolution related to procedures for dealing with witnesses at page 127, paragraph 9, of everybody's favourite bedtime reading: the House of Representatives standing orders. The resolution provides that should a witness refuse to answer a question, they should be asked to state the grounds on which they object. The committee may either accept that objection or, alternatively, deliberate at a future private meeting on whether or not to insist upon an answer. If the committee does consider the matter in private, it may write to the witness with the outcome of its discussion. During the course of the hearing, witnesses may be asked to provide documents at a later stage. If a witness subsequently refuses to provide documents, the committee may meet in private to consider the matter. Under standing order 236 of the House of Representatives, the committee has the power to compel witnesses to produce documents where the committee has made a decision that the circumstances warrant such an order.

I'm also mindful that today we have a parliamentary hearing on an important matter and a subject that draws strong emotions. One of the most important principles of having a parliamentary hearing is to make sure it is held with decorum and respect between the witnesses and, of course, the parliamentary members. As this is a public hearing, the public is most welcome to attend. I also recognise the need to conduct these hearings in a civilised and respectful fashion and the questions and answers are between the witnesses and the parliamentary members. We would appreciate if witnesses responses are heard in silence so that we can fully deliberate on what is said and so that we can have as free-flowing a discussion as possible between the members of parliament and the witnesses.

Today we have representatives from the National Australia Bank present for our hearing. Do you have any comments to make on the capacity in which you appear?

Mr Chronican: I am here as the interim chief executive officer.

CHAIR: I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I now invite you to make an opening statement.

Mr Chronican: The last time I was before this committee, I started by acknowledging that our bank had let down our customers, the community and also our employees, the vast majority of whom do a great job day in, day out. I said then—and want to repeat today—that I am sorry that these failures happened and I apologise to everyone who has been impacted by them. Since March we've been focused on making changes to put things right because we can only move forward if we deal with the past.

Today I want to bring you up to date with some of the actions we've taken and the issues that we're addressing. In July we announced the appointment of our new chief executive officer, Ross McEwan, who will join National Australia Bank on 2 December. Ross is a strong and proven leader who will drive the right behaviours and culture and who has a reputation for customer fairness and industry reform. Today, I will start as chairman of National Australia Bank, although I appear here as the interim CEO for my last duty. During my time as interim CEO, my focus has been on driving rigour and discipline in the way that NAB operates and trying to be much clearer on accountability. A key priority for me has been to compensate our customers. We now have more than 950 people dedicated to this work making sure that we do it fairly and quickly. To date, $247 million has been returned to customers through 473,000 separate payments, and we've set aside more than $2 billion to continue to put things right.

Last month we ended our home loan introducer payments program because we want customers to come to NAB for the confidence that they would have in our products and services, not because we've made a payment to a third party to recommend us. There has rightly been scrutiny of our management of non-financial risk, and last week we provided an update on the work underway to improve our performance in this area. This includes the 26 actions that we are taking following the board led self-assessment of NAB's culture, accountabilities and governance. It's early days and there is much more to do to achieve sustainable change; however, there is intensive effort underway. We have reduced or removed 185 fees across the Australian banking and wealth business. We've reviewed more than 300 products to ensure that they are right for customers, and we've created a board customer committee to provide oversight on customer outcomes and customer remediation.

We're also addressing the recommendations contained in the final report of the royal commission. Of the 76 recommendations, 39 are currently capable of being addressed by NAB. We've completed five of these, and work on the other 34 is in progress. While a lot of our work has been on making changes to earn trust and build confidence in NAB, we have not lost sight of our role in helping customers. Australians still want to get ahead, own their own homes and grow their businesses, and we'll manage our bank in a way that backs those ambitions, even in an uncertain environment. Economic trends continue to soften globally, and in Australia we're in unprecedented times with historic lows in the official cash rate and home loan deposit and savings rates. This creates challenges for our business. We need to consider the impacts of our decisions on all of our stakeholders. These include our 930,000 home loan customers, who deserve the best possible rate, our three million savings and investment customers, who want higher returns on their investments, and our shareholders, including 573,000 retail shareholders and millions of Australians who own NAB shares through their superannuation, who rely on consistent dividends, and of course our 34,000 staff.

We also want to maintain our investment and better products and services. We're seeking to do this at a time when competition has never been more intense, profits are declining and while our importance to the Australian economy remains critical. Our net interest margin is a key indicator of competition and, in our full-year results, we reported a net interest margin decline of seven basis points over the year to 1.78 per cent. That means that, for every $100 we lend, our margin—the difference between the rate we lend at and what we pay to fund that lending—is $1.78. Out of that $1.78 we have to take costs, including charges for loan losses and taxes. In 2010, NAB's NIM was 2.25 per cent, meaning that margins have effectively fallen 21 per cent over the last nine years. It's a similar trend for our overall profitability. Our return on equity is the best measure of this. Five years ago, for every $100 of equity invested in the business, the major banks achieved a return of $15.50. Today the ROE, or the return, on that $100 would be $12.20. These challenges are real. We also acknowledge the need to be transparent and to explain the decisions we make. In that context, the ACCC inquiry into home loan pricing will be an important part of that process.

To close, we are determined to make the necessary changes at NAB to entrust and to create confidence in the future. We're also determined to continue our role in supporting our customers and the broader economy, particularly through our lending to businesses. The biggest barrier to business investment today isn't interest rates; it's business confidence. Gary and I look forward to taking your questions. Thank you.

CHAIR: Thank you, very much, Mr Chronican. I begin by asking the question I asked the other two banks. In light of the royal commission and with everything you know that has gone on, including misconduct, would you have chosen banking as a profession?

Mr Chronican: I started my career in banking 37 years ago last week and in that time I've worked in three separate organisations across Australia and New Zealand—organisations that have helped millions of Australians and New Zealanders into their homes, helped hundreds of thousands of businesses grow and expand, and supported economies that have grown and created employment for millions. So I wouldn't have had any other career.

CHAIR: Despite the misconduct that's been found?

Mr Chronican: I think that, if you look at the broad sweep of what the banking industry has contributed to growth in Australia and New Zealand over the last 37 years, it's still been an incredibly strong contribution.

CHAIR: But would you have done things differently throughout your career in light of what has been perceived or—

Mr Chronican: I think any banker would look back over some of the decisions that were made in this industry, particularly over the more recent decade, and say that we lost touch with some of the underlying principles that dominated the first two-thirds of that 37-year career.

CHAIR: Do you see banking as a profession rather than just a job?

Mr Chronican: It always was a profession. The move to reinstate the notion of the profession of banking is, I think, very worthwhile and something that I support.

CHAIR: In terms of the implementation of the royal commission's recommendations, a lot of the focus wasn't just on legislative or policy matters; it related to a culture that sits within the banks around behaviour. Could you give us an outline about how you feel NAB is tracking against a need for cultural change?

Mr Chronican: Certainly. Driving cultural change obviously needs to happen at multiple levels. We need to communicate to our people what that culture looks like. But, importantly, we need to make sure that our behaviour as leaders is consistent with that. In terms of the three key cultural levers that I've been focused on over the course of this year, which are putting customers first, being more rigorous and disciplined, and simplifying the business and making it easier for our customers and for our staff, we've taken a number of steps to demonstrate that we're serious about that. By putting customers first, we've obviously heightened the focus on the way customers are treated through remediation, the way customers see us through the fees charges and products that we offer, and the way in which we deal with customer complaints and manage our dispute resolution process. So I think our people will have heard the message, but they also will have seen the actions we've taken. Similarly, on the other key cultural levers, we've talked a lot about what it means to be more disciplined, making sure that we execute smoothly on all of the projects and initiatives that we undertake, and simplifying and making things easier is reflected in the 185 fees and charges that we've either simplified or eliminated. So we are trying to make sure that our people both hear the message but also see what is looks like in practice.

CHAIR: I think that touches on a point, which is: it's rarely to do with changing culture to do with rules. It's more to do with leadership, conduct and, frankly, often self-regulation. Are you familiar with St James Ethics Centre's Banking and Finance Oath?

Mr Chronican: I was a director of the Banking and Finance Oath organisation from very shortly after its instigation. I was one of the earliest signatories.

CHAIR: Have you taken the oath?

Mr Chronican: I was one of the earliest signatories, yes.

CHAIR: Just for clarity.

Mr Chronican: Yes, absolutely.

CHAIR: In terms of the practice or adoption of the oath across the National Australia Bank, has the NAB done any work to promote or encourage the adoption of such an oath?

Mr Chronican: The organisation has not, as far as I know. I know a number of directors and senior executives took it, but I'm not aware that we drove a campaign to have the oath instilled, unless it was before my time.

Mr Lennon: It was across the executive committee. They all took the oath, and I think the board as well.

Mr Chronican: Yes.

Mr Lennon: There are still quite a number that have voluntarily taken up the oath, in the order of 100 or so.

CHAIR: Do you mean people across the entire organisation?

Mr Lennon: Yes.

CHAIR: How many employees does NAB have?

Mr Chronican: Thirty-four thousand. It's a very low take up. It's not something that's permeated down through the depths of the organisation.

CHAIR: In terms of a profession, and treating banking as a profession, people holding themselves to their own standards, or standards that they agree to, obviously is part of that discussion. Do you think it would be appropriate that there'd be a wider adoption of the oath?

Mr Chronican: I do. I was a little conflicted in this because, up until very recently, I was a director of the Banking and Finance Oath, and therefore it was difficult for me to manage the conflict that would look at without my advocacy for the oath.

CHAIR: I don't think most people would look at that as a huge conflict of interest, but I know point you're making.

Mr Chronican: No, but it was better for me that somebody else drove that advocacy because of the close personal alignment that I have with the BFO organisation.

CHAIR: As of 2 December, we should expect NAB to—

Mr Chronican: You should expect that I can free myself of any of that conflict and take a stronger advocacy role in terms of the oath; that's absolutely true. But I do carry it around with me continuously.

CHAIR: As a form of business card almost. You mentioned a customer committee. Who chairs that committee?

Mr Chronican: Ann Sherry.

CHAIR: That's at the board level?

Mr Chronican: There's a Board Customer Committee, and the way all large organisations work, if there's a board committee, chances are there's an executive committee that's preparing the work for us. So we have a senior executive customer committee as well, which is effectively the senior leadership team of the bank.

CHAIR: So it's effectively reporting to the board, the board committee and the executive committee to the executive?

Mr Chronican: Correct.

CHAIR: How many times has that met?

Mr Chronican: I'm wanting to say three. We set it up in March—

CHAIR: Over what time frame—twelve months?

Mr Chronican: Since March; effectively in six months.

CHAIR: What does it report back to the board or the executive—just feedback about customers? What information does it collect?

Mr Chronican: There's some procedural work in terms of overseeing the remediation of customers and testing that that's being done to ensure adequate quality. But we've also taken a couple of substantial pieces of work to the Board Customer Committee to make sure that management is aligned with the board on how it's being done. Two of those, where we spent the most time—one of them was a piece of work which was the customer outcomes framework. I referred to the fact that we had reviewed 300 products to make sure that they were appropriate for customers. That framework—how we did it, the methodology we used to test it—we took that to the Board Customer Committee and had quite a deep conversation on that. Then another piece of work we took through was the way in which complaints are handled and disputes resolved. So we took the Board Customer Committee in some detail through the dispute resolution process, where complaints are dealt with at first instance, where complaints are escalated, what happens to complex complaints and then how we manage the flow of complaints that go off to the Australian Financial Complaints Authority and what happens there. We wanted the board to get a deep understanding of that whole ecosystem of complaints and disputes. They're very two deep pieces of work that we took the Board Customer Committee through. That's on top of what you would normally expect, which is reviewing things like the Net Promoter Score and customer satisfaction measures and so on.

CHAIR: For your successor in your role as the CEO, is there an expectation from those who appointed him that, in continuing to deliver the values of remediation and addressing the issues of remediation outstanding, that where necessary, and if it's necessary to get to that level, that they would meet with customers, as has been the case after the royal commission?

Mr Chronican: I think it's hard to imagine a chief executive not meeting with customers. I don't know how many hundred customers I've met over the course of the eight months that I've had the opportunity to be in this role, but it's an integral part of it to meet with customers: customers with long relationships, customers with complaints and customers with context-specific—

CHAIR: I'm talking specifically about the context of remediation. We have a known problem, where cases in the past—and it's not just NAB—have gone on for a long period of time to the point where, and particularly out of the royal commission process, most CEOs have found themselves having to meet with customers with long-unresolved issues.

Mr Chronican: Yes, and—

CHAIR: I understand that you have done that—

Mr Chronican: Yes, I have.

CHAIR: You can take this on notice if you need to—

Mr Chronican: No, I'm happy to answer it.

CHAIR: Is the expectation of the board that this will continue beyond your tenure?

Mr Chronican: Absolutely. It's absolutely my expectation that when Ross takes up the role he would be able to meet with customers who had longstanding issues. The only hope I have is that there are many fewer of them that he would have to meet with. Of the 48 longstanding issues that we've had reviewed, I believe we've fully resolved 20 of those. I think we have something like 15 offers out to resolve, another two where the offers are being prepared and only 11 were the way forward is not yet clear.

CHAIR: I encourage CEOs to meet with their customers, as we meet with constituents. At the same time, I would have thought the intent should be to minimise the number of cases that go that long, and I'm glad to hear you say that.

In going back to the point about lived culture and the operations of the bank: the ABA has released its new code as of 1 July. Can you tell me how the bank is implementing that practically throughout the organisation?

Mr Chronican: Sure. It's quite a significant effort. The code is quite a complex document. I did actually take the time to read it cover-to-cover. It's very specific in a number of areas. When we mapped the code's requirements, it creates 88 separate obligations on the bank. In order to ensure compliance with that we need to make sure that we have controls in place that can assure us that all 88 obligations are being met all the time. So there is a process of building monitoring controls and reporting. Then, obviously, there's a process whereby any breaches that are found can be reported up through the Banking Code Compliance Committee.

CHAIR: I note that last week you made a series of remarks regarding interest rate cuts, and whether they're effective as a mechanism for stimulating the economy.

Mr Chronican: Yes.

CHAIR: I also note the answers to questions on notice submitted by me to the NAB related to interest rate cuts. I'm quoting here in relation to what happens when there is an interest rate cut and whether NAB passes it on:

> Following the June interest rate change, 0.4 per cent of NAB customers (excluding Advantedge and UBank) requested a reduction in their repayments and in July this number rose to 0.7 per cent.

Essentially, that's saying that unless you specifically pick up the phone as a NAB customer, or use some other point of contact, you just pay off a higher rate of your principal rather than receiving a direct cut in your repayments. Is that correct?

Mr Chronican: That is correct.

CHAIR: That is correct. So, in that context, I'll go back to the answer of question No. 4, in terms of term deposit rates. According to the data you've submitted, within the time frame of April 2019 to October 2019, if you had, for instance, a one-month term deposit then the rate dropped from 1.5 per cent to 0.55 per cent. Over 10 months it was 2.2 down to 1.1—a literal 50 per cent drop; and over 60 months it was 2.5 to 1.25. Maybe that's part of the reason why there hasn't been any stimulatory effect. You've seen a modest reduction in the number of people who are seeing reductions in their interest repayments, while those people who receive interest repayments from the bank have had them cut by 50 per cent automatically—or more.

Mr Chronican: If you look across the broad spread of our deposits, I don't think that pattern has been reflected at all. Indeed, across the totality of our retail deposit book it's been impossible to get the costs down by anything like 25 basis points.

CHAIR: Can you see why people might see such a statement as hypocritical? Noting that I have my own concerns about interest rate cuts, and they're not subtle when expressed, while we have CEOs claiming that they aren't very effective, equally, they're not necessarily taking action to ensure that they are going to be effective as well.

Mr Chronican: There are two parts to that question. There's the treatment of the repayments, and then there's the treatment of deposits. I just want to come back to the point about the repayments and whether customers adjust them. It would be in our interests for them to reduce their payments. The effect is that our home loan book is now in decline, because customers are paying off their loans more quickly. Previously, when banks have automatically reduced payments, they've been criticised for doing so because it was only in order to keep their loan balances up. So, there were two sides to that equation.

We are in a somewhat unusual position where two of our lending arms do automatically reduce but our major—core—one doesn't automatically. What we are doing—and I think it's going to be implemented in the month of December—is making available on our mobile app, for our home loan customers, an ability for them to simply go in and change the repayment schedule to what they would like it to be, as long as it's within the original time frame of the loan. That will make it a lot easier for customers who choose to reduce their repayments to do so. They won't even have to call us; they can do it themselves.

CHAIR: They'll be able to press a button, or move a slider on a scale?

Mr Chronican: Yes. I don't think it's a slider, but it's something along those lines. But effectively it is a slider because, as long as the loan is then paid off within the original contractual term, if they've got ahead on repayments then they can reduce them. Obviously as interest rates come down they can reduce their repayments. So, we're trying to put that as a choice back into the customer's hands. And we know that there are customers who actually quite like the fact that they're paying off their loan more quickly, because—

CHAIR: Yes, I understand that. It's an issue of practicality—of the practical relationship between the theory of interest rate cuts and what happens practically, but then also on the public commentary, which is making the case that they're not necessarily an effective instrument while at the same time the banks, if you go through all the answers that have been provided—at least by the major four banks—it seems that they're reducing their term deposit rates. And that happens on the point of renewal and/or the taking over of new term deposits, whereas the equivalent is not happening in terms of mortgage rates and interest rate cuts. You can see the inconsistency that some people would see—

Mr Chronican: Yes, that some people would see, but I think that's a selective use of term deposits. Term deposits are only part of our retail deposit mix—

CHAIR: Of course.

Mr Chronican: Across the savings and transaction accounts, it has been impossible to get anything like a 25 basis point reduction in rates.

CHAIR: How many class actions is NAB facing at the moment?

Mr Chronican: Three—only one of those in Australia.

CHAIR: And the other two are in—

Mr Chronican: One is a US class action relating to the BBSW issue that ASIC engaged all the banks on. The other was one relating to NAB's previous business with the clients of Clydesdale and Yorkshire Bank in the UK.

CHAIR: I think I may have already asked this on notice, but, for clarity, can you provide summaries of those cases for the committee on notice?

Mr Chronican: The UK one relates to a product called tailored business loans. BBSW, at the time ASIC was doing its investigation of the BBSW issues—which we've settled without ASIC some time ago on—there were investors in the US who launched a class action in the US. I don't think it's progressed very far, but it's still on foot.

CHAIR: Sure, but could we get—

Mr Chronican: And the third, which is the one domestically, is a class action in relation to consumer credit insurance in Australia.

CHAIR: Right, but I stand by—if we could get some simple summaries in terms of that, and we'll ask that of all banks. One of the other questions which has been raised with me, around the culture related to banking, particularly by its small business lenders, has been around payment terms and the relationship in the payment

terms between when the bank owes versus when somebody owes the bank, and whether they're consistent. What are your payment terms, and are they consistent?

Mr Chronican: We've signed up—I'm not sure what the convention is called—to commit to make payments to our suppliers within 30 days.

CHAIR: Is that 30 days flat—not 30 days from the end of the month?

Mr Chronican: It is 30 days from receipt of invoice. The fact is that we pay on average within 17 days, and for our small business customers we actually pay on average within seven.

CHAIR: Thank you. Have you adopted the model litigant standards that many of the banks accepted at the last—I think it was at this time last year?

Mr Chronican: We actually announced the adoption of model litigant standards at the hearings of this committee in March.

CHAIR: And they're relating specifically to new as well as existing cases?

Mr Chronican: Yes—anything on foot as well as new cases. People can access the summary of what that means on our website.

CHAIR: Duplication of super accounts has been an issue that's come up from time to time. Has NAB done any analysis of the duplicate accounts that exist between different operations?

Mr Chronican: I believe there has been some work done.

Mr Lennon: We on the wealth side of the business are regularly monitoring that.

CHAIR: Duplicate accounts within the bank as well as those in other external funds?

Mr Lennon: Correct—or where we become aware of it. Where we do become aware that a customer has a duplicate account, we try to notify them every three months to make them aware. There is quite extensive advertising on our internal and external websites around, 'You should be thinking about this.' And we have an annual review process where we formally go around trying to identify instances where customers may have duplicate accounts.

CHAIR: When you say 'identify instances', does that mean comparing datasets?

Mr Lennon: Yes, and using what's available at the tax office and making people aware of that side—so using various datasets internally and externally.

CHAIR: Can I just clarify: how do you contact customers?

Mr Lennon: It tends to vary. Sometimes it's via mobile apps. Sometimes it's via email. There will be various communication mechanisms—and on our website, of course. They're probably the three main mechanisms.

CHAIR: To what extent do you then have a change in behaviour and/or people seeking to consolidate off the back of it? Do you have data on that?

Mr Lennon: I don't have the data. If it's consistent and regular, and a topic people have interest in, you do get changed behaviour off the back of it. It's a reasonably topical issue.

CHAIR: I will hand over to the deputy chair.

Dr LEIGH: Mr Chronican, thank you for being here today. I'm sure you can't imagine a better way to spend your last day as interim CEO! A number of victims of banking misconduct have provided letters to the secretariat. In cases where those individuals are comfortable with their details being shared with you, might I ask if you would undertake to go back to those customers with a response to their questions, and copy the committee in that correspondence?

Mr Chronican: Certainly. I'll endeavour to do that.

Dr LEIGH: Thank you. On total compensation set aside for victims of banking misconduct, you said $2 billion has been set aside. How much has been paid to date, and to how many customers?

Mr Chronican: I had that in my opening address. It's $247 million, with 437 separate payments. But that's not necessarily the same as separate customers.

Dr LEIGH: That suggests you've only paid out a very small share of what you anticipated paying out. It is smaller than that of the other banks who came before us last week.

Mr Chronican: Yes, I heard their numbers. I'm aware that it's different.

Dr LEIGH: Why is there a longer tail in the NAB payments?

Mr Chronican: I can only comment on what we've done; I obviously don't have the detail of what other organisations have done. I would stress that this is something that we want settled quickly. There's no sense here that there's any benefit to us in doing this slowly—indeed, quite the opposite. I think we had about 200 or 300 people working in this area when I came into the role at the beginning of March. We've now escalated that up to 950 people. The two biggest remediation programs are those that relate to financial planning fees, the so-called fee for no service. The issue there is the complexity of going back, in some cases over 10 years, to reconstruct what was charged to customers at each point and whether or not the service was provided. So we shouldn't underestimate how complex that particular piece of work is.

Between the remediation of the adviser service fee issue for NAB financial planning and the separate one for the self-employed planners that operated through dealerships under the NAB financial services licence, those are the two largest remediations and they're the two hardest. Many of the smaller remediations, including what was called the planned service fee, which was the one that got some coverage at the royal commission, about charging customers as they moved out of corporate super and into personal super—that is 100 per cent complete. We've finished that work. Some of the small banking remediations are also complete. The issue for us is that the two biggest are the hardest, and we only agreed the methodology for the self-employed advisors relatively late in the piece—I think it was around July this year.

Dr LEIGH: What's underlying my question is the fact that the royal commission did highlight NAB as having been slower than some of the other major banks to compensate aggrieved customers and whether the difference between what you paid and what you anticipate paying reflects the impact of that relative slowness in dealing with these issues such as fees for no service.

Mr Chronican: I think we accepted that criticism. The royal commission wasn't the only body that criticised us. I think in the ASIC report we were identified as having been the slowest of the banks in identifying issues. I'm acutely conscious of both of those conclusions, which is why we've ramped up the number of people involved in this work to deal with it expeditiously.

Dr LEIGH: In terms of cultural change, one analyst report refers to decades of chronic mismanagement at NAB. To the extent that the royal commission demanded significant cultural change within banks, do you see NAB as being able to do that? Is it possible to turn the ocean liner around after what one analyst said is decades of sailing in the wrong direction?

Mr Chronican: I just have to believe it's true. I think the National Australia Bank is far too significant and important an organisation to say that we can't make it into a highly trusted and reliable organisation, the sort of organisation that Australia's biggest business bank should be. So I've certainly taken that challenge on. Ross McEwan, who's a very seasoned banker across both the UK and Australia, has also taken that challenge on. We're under no illusion that we need to make change, but somebody has to step in and lead that change. I'm very pleased that Ross has agreed to do so.

Dr LEIGH: In a recent report in the *Financial Review*, Aleks Vickovich refers to the tardiness in NAB divesting its wealth management arm, quoting an anonymous former NAB executive saying:

'Now that they are getting into the detail of this exit project, I think they're realising how difficult it is to disentangle.'

I'd like you to respond to that, if you would, and also let us know how you expect that divestment to occur?

Mr Chronican: Sure. So the comment about when you get into it and find out how hard it is to disentangle is a fairly astute comment. I think it is true. When we announced that we were going to separate it, which was early in 2018, there was a view, I think, at the time among management that that was something that could have been achieved this year, 2019. The combination of two or three things, as we've got into the detail of it, means that that's simply not possible. One is that we needed to functionally separate the business. There have been several years of integrating many of its core systems and processes—things such as its finance systems, payroll and so on. If we're going to separate the business, it needs to be able to stand on its own in those so there are separation activities.

Secondly, and importantly, the remediation that we were just speaking about—the advisor service fee issues among the NAB financial planners and the dealer groups—sits under the wealth arm, and therefore the wealth business would not have the financial resources on its own to go through that remediation. The bank has to support that remediation activity, and obviously we can't separate the business off onto a new owner with a massive overhang of that scale. One of the reasons, as I was saying, that we're incented to move quickly on that remediation is that it does run the risk of getting in the way of our separation plan.

Thirdly, and equally importantly, the business has to be sustainable on its own. Because the business has been through a rough patch, some parts of the business are still going through funds outflow and, again, we can't in good conscience pass the business onto new owners unless we are confident that it's sustainable on its own.

Dr LEIGH: Will it happen?

Mr Chronican: We're still planning on it happening, so we're pushing through for something to happen in the second half of calendar 2021. But obviously there are three threshold tests we need to get through. First, the separation activities are ready—that I'm reasonably confident of. Second, that we make sufficient progress on the remediation work that we're able to set for that not to be an overhang I'm moderately confident on. And, thirdly, that the underlying health of the business is remediated to the point that it can sustain itself, and we'll have a better view of that after we get through the next six months.

Dr LEIGH: But if the divestment of your wealth management arm doesn't happen you would accept that that would cause concern among many Australians who saw vertical integration as being one of the factors leading to the scandals underlying the royal commission?

Mr Chronican: I was going to say, I think the same scandals occurred in non-vertically integrated businesses, so I'm not sure I would draw that direct comparison. But it would cause concern to us, because one of the things that we were seeking to do was to simplify our business so that we could be better at the business of banking. If we are not successful at separating the business it will be a disappointment to the board and to the senior executive of the bank.

Dr LEIGH: Does NAB impose a loyalty tax? Do you charge differential rates for new customers and existing customers on your mortgage products?

Mr Chronican: On our variable rate mortgage products we charge different rates for different customers for a whole range of different reasons. The overwhelming majority of our variable mortgage rate customers, in fact 97 per cent, have discounts below the standard variable rate. And each of those discounts is set with reference to the riskiness of the loan, the size of the loan and also the combination of business that the customer brings in. The discount is for the life of the loan when a customer gets it, unless of course the customer, at their discretion, comes back and wants to renegotiate with us or they can always refinance with another organisation if they can get a better deal.

It does mechanically work out that for our variable rate borrowers, owner-occupied, the average discount we are offering currently is about 26 basis points, one-quarter of one per cent lower than it is for the book as a whole. There are some reasons for that that are to do with the composition of the business. For example, we would have many more interest-only loans in the past because we are not writing as many of those today, and interest-only loans were getting a lower discount in the past because of the high riskiness associated with them. So it's not possible just to say like for like. Today's loans are that much lower, but there are cases where, because the competitiveness in the market waxes and wanes, mortgage discounts at a point in time are deeper than they were when some borrower in the past got their loan.

We actively offer all of our customers a review of their mortgage. We've called almost all of our customers in the course of the last 12 months asking if they'd like a review of their mortgage. As an example of how that plays out, in the month of October alone 15,000 customers took advantage of that and we increased the discount on those.

Dr LEIGH: Why is it that those customers have to respond to a request for review, rather than simply receiving the same rate as a new customer would get? Aren't you profiting from inertia?

Mr Chronican: It doesn't exactly feel like that. It's a competitive market to get new business. As I said, we're acutely conscious that we want to retain our customers, but I've explained that the differences are not as great as many people make them out to be. We compete at a point in time to get a customer and we quote a discounted rate to get it to be competitive. We are conscious that over time sometimes those rates become uncompetitive but I'm not sure what process would allow for an automatic—it's hard to have an individual negotiated rate if everybody has to get the same rate.

Dr LEIGH: You're the nation's largest business lender. There's been some to and fro between NAB and ASIC regarding the impact of responsible lending laws. You've described responsible lending obligations and the code of banking practice as being a 'significant piece of indigestion'. How do you respond to ASIC's response to you where they say that, 'the rules haven't changed and business lending shouldn't be affected by responsible lending laws'?

Mr Chronican: As you've pointed out, the law for responsible lending hasn't changed. My comments related to the combined effect of responsible lending and the Banking Code of Practice. The Banking Code of Practice

obviously did change. While the law of responsible lending hasn't changed, ASIC's approach to its implementation has. There was draft guidance that came out earlier in the year, and there have been hearings on the draft guidance, that hasn't been settled. And that position is now confused by the court case involving Westpac and responsible lending.

Dr LEIGH: This is the famous steak-and-wagyu case?

Mr Chronican: Yes, shiraz and wagyu. There is a subtlety in the middle of this—that is, the responsible-lending legislation is about consumer loans, not about business loans. That sounds very clean on paper; the reality is that, for many of our small-business customers, it's very difficult to untangle their business from their personal possessions. Small-business customers have variable income and variable expenditure. Again, the early draft guidance that came out would have been difficult, in the context of that, for a consumer loan to a small business operator. The other thing we're conscious of is that sometimes our customers come to us for a consumer loan, but we can't be 100 per cent clear whether the purpose they're going to use the funds for is personal or business. As I said, small-business owners do commingle things. I'm happy—indeed, I've made the offer to ASIC—to sit down and go through in more detail how these things actually play out.

Dr LEIGH: Given the fragility of the Australian economy, getting small-business lending flowing is a first order issue for the macro economy. What would you like to see ASIC do?

Mr Chronican: I made a comment last week that, at the end offer 2014, when one of the big issues facing the Australian economy was the house price boom, which appeared to be at risk of destabilising the economy, and the Reserve Bank did not want to increase interest rates in the face of that, the Council of Financial Regulators got together and came up with what I think was quite a concerted plan, which involved tightening up responsible-lending implementation, hence the 2014 guidance that came out. APRA moved on macroprudential rules to make it harder to make investor loans and interest-only loans. There were a number of concerted actions taken to address an issue that was agreed among the official community as an issue. I suggested last week that, if we think that getting business investment going is now the number one issue facing us, then perhaps a similar approach, where we could have coordinated efforts across the regulatory bodies to assist that, might be helpful.

Dr LEIGH: What's your view on groups targeting businesses or firms who provide goods or services to firms they don't like?

CHAIR: Define 'don't like'.

Mr Chronican: That's right. I think there's reasonable precedent about putting restrictions on secondary boycott activity in the Australian economy. A bit like the chairman's comment, it's a question of what 'not like' means. I don't think that not liking something is a basis for having concerted action against them.

Dr LEIGH: Do you see environmental advocacy in Australia as being a drag on business?

Mr Chronican: I'd make a couple of points there. I think a lot of environmental advocacy is worthwhile, because the environment is a precious thing. I think there are some tactics sometimes used by activists that are difficult. I certainly wouldn't want to encourage people to be doing disruptive things and getting in the way of activity. But we know that we will have people who advocate for change in the environmental practices probably come to our annual general meeting and ask questions and put motions. That's what an AGM has become for. We're happy with that. We engage with environmental activist groups because they're interested in our policies and practices. As I said, I think there's a level of civility that should be maintained in that.

Dr LEIGH: How has climate change affected NAB's lending practices?

Mr Chronican: We look across our lending portfolio and try to understand what impact climate change will have and what the impact the world adopting the Paris Agreement will have. Obviously that has an effect on the risk profile of our business, so we are required by APRA to do a risk assessment in that regard.

Dr LEIGH: Do you see NAB as needing to reduce its own emissions?

Mr Chronican: Yes.

Dr LEIGH: What are your targets there?

Mr Chronican: We are releasing today an updated position on our environmental practice. That will include, for example, targeting sourcing 100 per cent of our own energy from renewable sources or the equivalent by 2025 and reducing our financing of thermal coal activity down to effectively zero by 2035

Dr LEIGH: What is it at the moment?

Mr Chronican: The exposure to thermal coal?

Dr LEIGH: Yes.

Mr Chronican: $760 million. That's a combination of both supporting domestic power consumption and exports.

Dr LEIGH: Remind me again of what your total book is. I'm trying to work that out as a percentage.

Mr Chronican: Our total loan book?

Mr Lennon: $260 billion for business.

Dr LEIGH: So it's a small fraction of one per cent that's going down to zero?

Mr Chronican: Yes.

Dr LEIGH: Do you see NAB as having an important role in the public conversation around tackling climate change?

Mr Chronican: Yes, we do. It has an impact on our business at all levels. We need to understand what the impact will be. If we were to see increases in cyclonic activity, that would have an impact on our physical assets that sit as security to much of our loan book. If sea level rises were to occur, obviously that would have an impact on coastal properties. We have an interest in what's happening in climate science. I think you'd appreciate there's not always as much clarity on this as we would like, but we are conscious of it and we are looking at risk assessments. The other is that if we are moving to a world where renewables are more predominant then we need to keep in mind the context of potential stranded assets which may not have the value in the future that people ascribe to them today.

Dr LEIGH: Thank you.

Mr CRAIG KELLY: The number that you quoted earlier—is it $2 billion you set aside for compensation following from the royal commission.

Mr Chronican: All of the issues. Not all of them are directly from the royal commission, but yes.

Mr CRAIG KELLY: What time period does that go back to, that $2 million—sorry, $2 billion. $2,000 million just to make the clarification.

Mr Chronican: I think the furthest it goes back is about 10 years, back to about 2009-10. What happened is that the Future of Financial Advice reforms, which commenced from July 2013—NAB agreed to implement them early, and as a result of that we actually have a longer legacy of those issues than many of our competitor banks.

Mr CRAIG KELLY: How did you come up with that $2 billion figure?

Mr Chronican: For each of the remediation programs we've had to go through and make an estimate of how that would be calculated. If I can take a reasonably typical example, in this case, the NAB financial planning one: we had to go back and say: 'Well, how much was charged by financial planners to customers for advice fees in total? Then, what probability are we going to have of even being able to find some of the files?' Some of the advisers have moved on. We've gone through and made an estimate. Where we doubt we can even find a file or we know we can't find a file then we will be refunding the amount anyway irrespective. Then we'll go through and say, 'Where we do have the files, what's the estimated number where the file will not have evidence that advice was provided?' Having made that estimate, that will come up with a proportion of the advice fees that we will refund the customer, and then we have to add an interest charge for the time. For 10 years ago, that will be a number of this size, but, actually, by the time we pay it, it will have grown by that interest charge.

Mr CRAIG KELLY: So there must be some threshold that you have that says, 'Look, this issue here, we have to make a provision to pay it, but this one we think we're okay on?'

Mr Chronican: Absolutely. We've gone through—and continue to go through—a whole range of activities and asked, 'Was there any risk of misconduct or mistakes or errors being applied in these areas?' One by one, where we've identified that, we say, 'Well, how many customers would that apply to and over what time frame?' and adjust for that and then make a provision. The $2.1 billion has been built up from the bottom-up analysis.

Mr Lennon: It tends to be that, for each of the issues that we have on foot, in the majority of cases we've agreed with ASIC on what the criteria is. You go through a process of which circumstances you would need to compensate and which circumstances you don't.

Mr CRAIG KELLY: Obviously there's an issue and it falls in one basket or the other.

Mr Lennon: You find the facts and you reach for the facts—

Mr CRAIG KELLY: It's on a balance of probability. Is the line that you draw based on the law or is it based on what you think's a fair and reasonable thing?

Mr Chronican: Certainly the law is a minimum. If there's any risk of a breach of the law, then obviously we would immediately deal with it, but in many cases it's not a strict legal requirement. Rather, it's a risk assessment of whether there was a risk of customer harm or where something was inadequately disclosed. I think one of the issues that came up at the royal commission was that our disclosure to customers was misleading in an area, and therefore we've gone back and said, 'Well, if the disclosure was misleading, then we shouldn't have charged the fee,' and therefore we refunded it.

Mr CRAIG KELLY: Therefore that conduct would be in breach of our consumer law as far as misleading and deceptive conduct is concerned?

Mr Chronican: That's potentially true. In that particular case, we have actually now conceded that.

Mr CRAIG KELLY: Why weren't these customers compensated in the past? Why did it take a royal commission for the banks to say, 'We engaged in misleading and deceptive conduct, we engaged in unconscionable conduct, we broke the law here, and we've ripped customers off by $2 billion'? How come it took a royal commission to get to this point?

Mr Chronican: To be fair to ASIC, the fee-for-service issues were being dealt with by ASIC long before the royal commission was called. ASIC published, in October or November 2016, a document where they looked at an industry and identified this issue. That's really the genesis of the remediation work. The royal commission shone a much starker light on the work, but it wasn't the royal commission that directly led to the fee-for-no service issue being remediated.

Mr CRAIG KELLY: But there were customers screaming for years, calling for a royal commission to have their case heard—

Mr Chronican: Yes.

Mr CRAIG KELLY: and now you're saying you reviewed the case and you're saying, 'Yes, we've admitted we've engaged in misleading and deceptive conduct in certain circumstances.' I'm just trying to understand what's changed between the past and now. How is it that, for so long, the banks were able to engage in such conduct and now it's flipped because of the royal commission? How did that happen in the past? Was it a failure of our legal system to give adequate justice?

Mr Chronican: I think there's confusion. If you go back and look at all of the people calling for royal commissions, which dates back a number of years now, initially not a lot of that had to do with the fee-for-no service issue. As I recall, there was a whole range of other issues about life insurance payouts, the treatment of businesses, including farmers—

Mr CRAIG KELLY: But a lot of those complaints would be in that $2 billion pot?

Mr Chronican: Yes, but a very small amount. One of the really stark features—and it cuts to the comments the deputy chair of the committee made—is that the wealth businesses are responsible for the overwhelming majority. Of that $2.1 billion, what per cent relates to our banking business?

Mr CRAIG KELLY: Is there a breakdown that you have categorised?

Mr Lennon: Yes. Out of the $2 billion, basically 93 per cent relates to wealth and insurance and seven per cent relates to banking.

Mr Chronican: In the banking case, it's something around $150 million in total. This is predominantly about issues relating to financial advice fees, either through our planning group or the arm's-length planners, or insurance.

Mr CRAIG KELLY: Just to clarify those numbers, of the $2 billion, 93 per cent relates to fees and charges that a lot of customers didn't know about?

Mr Lennon: There was a series of issues in the wealth business, including those, that added to that 93 per cent—yes.

Mr CRAIG KELLY: And seven per cent relates to—

Mr Chronican: Normal banking activities—what you and I would consider core banking.

Mr CRAIG KELLY: Loans to small business, loans to—

Mr Lennon: Offset accounts.

Mr Chronican: Not correctly matching an offset account against a mortgage, so customers didn't get the benefit of the offset, and some periodic payment fees that members were meant to be exempt from but the system incorrectly charged them.

Mr CRAIG KELLY: So, of the numbers you gave earlier, you have so far paid out $247 million of that $2 billion so, roughly, on the back of an envelope, 12 per cent has been paid out but there is 88 per cent still to come?

Mr Chronican: Yes.

Mr Lennon: There's one slight nuance to that. It's worth taking into account that the $2 billion is the provision for the overall costs and quite a substantial portion of that just relates to the process—what we call the cost to do, the costs to dig around and find the documents.

Mr Chronican: It's about paying for the 950 people who are doing the work.

Mr Lennon: Yes, those who are doing the work, trying to investigate the different situations. That's about 23 or 25 per cent of the overall number.

Mr CRAIG KELLY: Of the overall $2 billion?

Mr Lennon: Yes.

Mr CRAIG KELLY: How many current cases do you have before the Australian Financial Complaints Authority?

Mr Lennon: I have it here. It's in the order of 700 open cases.

Mr CRAIG KELLY: Do you have a provision for those as well, for payouts that you may have to make for those cases? Is that within the $2 billion or is that additional?

Mr Lennon: They tend to be issues that get resolved somewhat in the normal course. Obviously there are different ways that those issues get resolved. Some get resolved for the better of the bank and some for the customer, and we have to pay that out. That is more an ongoing feature. I don't think any of those are covered by that provision.

Mr CRAIG KELLY: What time period are they taking to settle through the Financial Complaints Authority? Seven hundred cases seems to be a substantial backlog of cases for the complaints authority to handle.

Mr Lennon: There is a significant amount of cases. The law changed to allow more long-dated cases to go to AFCA, but they're quite modest—I think in the order of 50 out of that number.

Mr CRAIG KELLY: Are you finding that a declining number of cases going to the Financial Complaints Authority every month or is it steady?

Mr Lennon: Around the royal commission there was an uptick in the amount of cases going to AFCA, but it is starting to stabilise now. We're getting better at resolving issues sooner, so before they get to AFCA, and when they do get to AFCA we're heavily incentivised to resolve those as soon as possible.

Mr CRAIG KELLY: I have a question on another topic you raised. You said that you were going to get out of financing thermal coal.

Mr Chronican: Yes, by 2035.

Mr CRAIG KELLY: The International Energy Agency released some forecasts earlier this week that show that demand for Australian thermal coal is likely to increase up to 2030 and into 2040. How does Australian industry meet that demand if one of the four major banks decides it's not going to fund them or it is going to exit that industry?

Mr Chronican: There's a conundrum in that observation, because the International Energy Agency has also said that, for the world to meet the Paris commitment, the use of fossil fuels would need to reduce by 45 per cent by 2030-something. So, while there may be demand, there are other forces at work to constrain that. It is that interplay that we're sitting in the middle of trying to navigate how we can operate.

Mr CRAIG KELLY: When the board sat down and made that decision did they give consideration to the fact that Australian coal exports are going to places like China and India, which actually have very large coal deposits and mine greater quantities of coal than Australia does, and if Australia is not supplying that coal then those countries will use their own domestic coal instead, which per unit of energy burnt has higher CO_2 emissions?

So, if the idea is that the bank wants to take it upon itself to see emissions reducing, then putting blockades and making it more difficult for high-quality black thermal Australian coal to be exported could actually see more domestic Indian coal and more domestic Chinese coal burnt, and the net result is higher CO_2 emissions.

Mr Chronican: I think that cuts to the complexity of this area. The Australian government has committed to the Paris accord and what that implies. We have sat and looked at our customer base. We've talked a lot about thermal coal here, of course. Fossil fuels is a broad array, and if overall fossil fuels are going to be reduced by

something like 45 per cent over that period then we need to look at that reduction. The point you make is quite valid, which is that Australian coal is more—

Mr CRAIG KELLY: But is that something that the board actually sat down and considered, and said, 'Hey, what we might be doing actually could be counterproductive'?

Mr Chronican: We have to look at the spectrum. We also then looked at—which is the next issue that will come in front of us—oil and gas. We know there is low-quality thermal coal and there's better-quality thermal coal, which much of the Australian production is about. There's gas and of course oil, although oil's not a huge part of our lending portfolio. The mix of fossil fuels—obviously there's a spectrum of emissions that go from that. And then there's an overall ceiling. So in fact we did look at all of that. We also went through with our customers, who are themselves looking at their path as to how they are going to lower their emissions. So, this isn't something we've come up with arbitrarily; we've actually had conversations with our significant electricity-producing and coal-producing customers.

Mr CRAIG KELLY: What about the workers in those industries? If I'm a worker in a regional Queensland town that relies on coalmining and I'm listening to this inquiry I might think: 'Hang on a minute. One of the big banks of Australia is going to cut off any funding to my supplier.' What do you say to those workers?

Mr Chronican: It's not something we've committed to; the government committed to the Paris accord.

Mr CRAIG KELLY: But hang on: the bank has made a decision, which you said here, that you are not going to fund a particular industry, being the Australian thermal coal industry, by 2035. That's not the government's decision; that's a decision of the bank. And that decision is likely to have very adverse consequences for people in regional towns that rely on these companies having access to finance to continue in their industry.

Mr Chronican: We have to make decisions on our risk portfolios all the time that have consequences. So, as I said, we're operating within a government framework on the Paris accord and we have to look at the risk to our—

Mr CRAIG KELLY: But the government has its targets under the Paris accord. We can argue here or there about how it's going to do that, and that's a separate argument.

Mr Chronican: Sure.

Mr CRAIG KELLY: But the decision you are making not to finance the thermal coal industry is not a government decision; it's a decision by the bank. Is that correct?

Mr Chronican: It's a decision by the bank, taken in that context and taken in conjunction with the customers to whom we lend.

Mr Lennon: I think there's another important point, which you touched on, Phil. We have worked very closely with those thermal coal producing customers and will continue to do so, to try to help them manage through a transition period. And if that is successful—and how to manage through the transition then—you would hope that working with that customer also involves working with the local communities to ensure the—

Mr CRAIG KELLY: But couldn't that transition period—if, as we see, hundreds of new coal-fired power stations being built in South-East Asia—mean that these companies are just saying, 'Well, we'll just move our operations overseas'? There's plenty of coal to mine in China and India. The demand is there. Isn't that likely to be the transition, at a loss to the Australian economy and a loss to Australian jobs?

Mr Lennon: I'm not sure that those are the plans our customers actually have. They're looking to leverage technology and a whole host of things to decrease their emissions—unless, Phil, you know other—

Mr Chronican: No.

Mr CRAIG KELLY: Are you getting pressure from activist groups to engage in secondary boycotts against companies working in the coal industry?

Mr Chronican: Secondary boycotts? No, I don't think that's the case.

Mr CRAIG KELLY: So, none of the decisions that you are publicly announcing to exit loans to thermal coal by 2035 have come about via activists pressuring the banks—

Mr Chronican: As you would well know, there are activists who pressure us. We came back to a risk based approach to this, which is that we are required by our regulator to assess the risk of our portfolio in light of climate change and climate change requirements. It's under that context that we've sat down with customers, many of whom have their own plans for emissions reduction, and gone through and identified a path that lowers our financing, because it lowers our exposure to the underlying risks of ending up with stranded assets.

Mr CRAIG KELLY: Have you set aside a date to stop loans to the gas industry?

Mr Chronican: No, although under the United Nations Principles for Responsible Banking organisation, to which we are a signatory, we are required to develop an oil and gas strategy over the next few years.

Mr CRAIG KELLY: So there could be a case in which the bank decides that it won't loan to coal, it won't to gas and it won't loan to the oil industries?

Mr Chronican: I doubt we'll get to a case where we don't loan anything to any industry because—

Mr CRAIG KELLY: You've just said the plan is not to loan to the coal industry by 2035. You've announced that—

Mr Chronican: Correct.

Mr CRAIG KELLY: So, surely oil and gas are next in line for you to make an announcement that you will no longer fund them?

Mr Chronican: We haven't done the analysis, so I can't comment on that.

Mr CRAIG KELLY: On the recent decision of the royal commission, have you made any changes to your late payment penalty fee structure?

Mr Chronican: We've made a number of changes—I presume you mean credit card late payments? We've made a number of changes. One change, which was made relatively early, was to have a lag built in so that people who were inadvertently late by missing a cut-off weren't inadvertently charged for it. Secondly, we've instituted SMS messaging, prior to the due date, to remind customers to make their payments, to help avoid the fee and, thirdly, we've instituted a waiver, such that customers who have been regular payers over the previous year don't get charged for just having one late payment. The net result of that has been a 36 per cent reduction in complaints relating to late payment fees.

Mr CRAIG KELLY: The chair is giving us a wrap-up here, so one last question. Since the recent interest rate announcement by the Reserve Bank, have you seen businesses want to come in and borrow more money?

Mr Chronican: There has not really been any pick-up in demand for business credit.

Mr CRAIG KELLY: Even as the rates have come down, you haven't seen more businesses wanting to come in and borrow money because of those changes?

Mr Chronican: No.

CHAIR: You mentioned about how you're assisting communities in their transition, in the context of Mr Kelly's questions about thermal coal. Could you provide some more information about that?

Mr Lennon: It would be led by the customers who we are primarily supporting and then—by the default from that—when you're helping those customers in the transition period, then, by default, by helping the customers you are helping the local community, because presumably the customers would be thinking about a lot of the issues that Mr Kelly was raising, or concerns for the welfare of the staff and where they are going to go to et cetera. Particularly when it's regional Australia, we have a proud record of supporting lots of communities in regional Australia. So if there were communities that were getting significantly impacted, our default position would be to try to help, if we could.

Dr MULINO: Thanks for attending today. I wanted to start with a few questions around remediation. You've indicated that of the outstanding remediation, which is the considerable bulk of the total amount that you expect to pay out, most of it relates to wealth and insurance. I'm wondering can you break down a bit further what are some of the types of disputes that fall within that category?

Mr Chronican: I'll go from the biggest down. Financial advice fees charged by the NAB financial planners to customers where we can't evidence that the advice has been given, that's many hundreds of millions—

Dr MULINO: In those cases, would it be a matter of just establishing how much—

Mr Chronican: We know that the fee has been charged to a customer and we need them to identify the evidence that the contractual commitment to give the advice was fulfilled, so we need some evidence of advice having been given. There are two reasons that we might not be able to find that. One is that the advice may not have been given. The other is that the record keeping may be such that we can't evidence it, in which case it doesn't matter, we'll refund the customer in any event.

Mr Lennon: To highlight some of the complexity around that, this relates to aligned advisers, not NAB employees—

Mr Chronican: I was talking about the NAB financial planning in the first case. The second category, which Gary was about to start on, is that there are independent financial planning groups that operate through dealerships under the NAB's Australia financial services licence. These are arms-length financial planning groups,

but what are known in the industry as aligned, that is that they use platforms and processes that NAB provides them, or now MLC provides them. In those cases, we've got self-employed advisers who have similarly charged for advice. We now need to go out and establish, through those dealer groups, whether they have the records of the advice having been provided as accordingly. Part of the complexity of that is that some of these advisers have changed dealer groups. They may have worked in a NAB related financial planning business, say, for three of those years and then have moved to another group. We have to be able to go back and identify and track these advisers, and what's making that part of it particularly difficult is some of those advisers have retired, have moved to other planners or, of course, in some cases, are no longer with us and therefore records can never be found.

The reason the number ends up being so large is that if we can't evidence it we're going to refund the customer, which means that it's not that the customer absolutely didn't get advice, it's just that we can never prove they did and that's why the number ends up being quite large. The other reason the number ends up being large is if it dates back to 2010 or 2011 the cumulative interest charge becomes quite large in itself.

Dr MULINO: Are there any other material categories?

Mr Chronican: The next largest under that would relate to where we believe there may have been some mis-selling of consumer credit insurance products and the question there is was the customer sold appropriately? There's some suggestion that customers didn't understand what they were signing up for. We want to go back and assess whether the sale of these consumer credit insurance products were appropriate and, again, if we can't demonstrate that the customer wanted the product and saw value in it then we'll refund it. For example, if a customer comes in two months or a month after having been signed up for the product and cancels it, it's reasonable to assume they didn't want it in the first place. And we're taking that as prima facie evidence that they didn't and we'll refund those months premiums to them in any event.

Dr MULINO: Clearly, there are longer term issues in the sector, which we will explore today and probably over the next couple of years, but expediting remediation is an urgent issue for all of the people involved—

Mr Chronican: It is.

Dr MULINO: It would be useful if we could get a breakdown of the outstanding cases along the lines that you've indicated, and then just a bit of commentary on some of the complexities of each of those categories—

Mr Chronican: Sure. I refereed earlier to the plan service fees that were a subject of some inquiry at the royal commission. Because all the information did exist and we were able to demonstrate that all customers received the same communication and, therefore, that was misleading, that has now all paid out and closed because it was a more straightforward case of remediation.

Dr MULINO: As the deputy chair indicated, there are a number of people that have approached us and that information, subject to people's permission, is going to be provided to you and it would be very useful if you could provide us with some individual answers. I just want to raise one example, in addition to that broader sweep of information that we're going to provide you, because I think it provides some insights into some of the specific challenges, particularly from the customer's side. It's a case which I think has been raised in public before—Bill Mott, a case involving a forced sale, millions of dollars—and it's now a dispute which is in its third year. Just by way of context, I suppose, from my experience in dispute resolution in the context of financial services, important features of an effective dispute resolution process would include simplicity, even-handedness—both in terms of what is perceived and what actually happens—and timeliness. There's undoubtedly going to be some dispute as to some of the facts, but the fact that we're now in the third year down the track—and my understanding is that we're still at the point where there's disagreement as to who should be an appropriate mediator in that case—suggests to me that there are substantive issues in terms of the process and complexity and certainly timeliness. I'm just interested in whether you have any observations around that particular case but also what it might say about the overall process.

Mr Chronican: I'm not going to comment on the case. Even though it may be in the public domain we are still restricted in our ability to talk about individuals, so, I'm sorry, I simply can't talk publicly about anyone by name. We have set up a group to manage these complex cases. As I said at the outset, we identified 48 of these, many of which have been through all forms of dispute resolution, often through courts, and in many of those the courts have not found in favour of the customers. Nonetheless, because these were ongoing complaints, we reopened these cases to have another look at them, not through the point of legality, because in most cases that had already been established, but through whether or not there was still some issue of fairness at stake. We went through each of these 48 and, as I said in response to an earlier question, we have now settled 20 of those 48. They are by definition really difficult and longstanding ones. None of them involved straightforward issues. In 20 of those we have made offers which have been accepted and the issues are now closed. I think there are a further

15 where we have an offer in the hands of the customer to settle them. I hope from that you can take that we are sincere in our effort to get resolution, but I would make the point that, in all 48 cases, they were longstanding because of the complexity and the conflicting principles that were at work in them. We are absolutely sincere; indeed, two of the team that are charged with that work are here in Canberra today, still meeting with some of those customers.

Dr MULINO: We will welcome whatever comments you're able to provide in relation to individual cases and we'll provide information to you, as the deputy chair indicated. Can I perhaps then raise a broader question around the dispute resolution process not just in relation to those complex cases but the much larger number of cases where, for example, you are still trying to work through evidence as to whether financial advice was in fact given. Those are instances where, in a sense, the onus is on you at some point to prove that the advice was given. We're now at the point where it's many months down the track. It is welcome that you have substantially increased the number of people working on these cases, but clearly in cases like this we're in an asymmetric situation where the difficulty for an individual person or a small business in coping with delays is much greater than for a large organisation. Do you think you have to do more to set out time lines and put more effort into timely resolution?

Mr Chronican: All I can say is: I desperately want this issue off our plate. Because of the ongoing interest charge, the longer it sits out there the more it's going to cost us. And, because of the number of people we have employed doing the work, it's costing us money to do this. Pure financial incentives alone are driving us to do this as quickly as is reasonable. We have to do it properly. The last thing I want to do is to create a second wave of remediation because we didn't do it properly, so there is a quality dimension required here. We saw in the UK that banks thought they had remediated an issue only to find it was completely inadequate and they had to go back and do it a second time, and we clearly don't want to do that. You should be assured that we are proceeding full steam ahead to get everything done as quickly as we can. The business needs to move forward. We need to settle the issues of the past so that we can do that.

Dr MULINO: I acknowledge that delay imposes costs on both sides, but would you acknowledge that it's not symmetric and that long delays going to years—

Mr Chronican: Of course not.

Dr MULINO: is more difficult and more painful for individual people and small businesses in general than for your side of the equation?

Mr Chronican: That is absolutely the case. I agree.

Dr MULINO: I just want to ask a couple of questions around culture, which I think was one of the core findings of the royal commission. Unfortunately, at the same time, it's one area that's more difficult to quantify and measure changes. Clearly, recommendations 5.6 and 5.7 are, for many, two of the core recommendations. They recommend that financial service entities should assess their culture, identify problems with their culture and deal with those problems, and then set up mechanisms to determine whether changes have been effective. I want to start with an observation—and I've asked similar questions of other banks—about some of the pre and post very high-level messages that the banks send to the external world and to their own staff. Like in a lot of organisations, documents like the vision statement and other core statements around values are central to those messages. If you look at, for example, 'Our people living their values', the five values are: passion for customers, will to win, be bold, respect for people, and do the right thing. That was from 2015. As far as I can tell, they're completely unchanged. I suppose you could say that, as a large organisation responding to something as seismic as the royal commission, what we saw in the royal commission wasn't that we need to change our fundamental values but that we need to live up to them better. But, to me, the very fact that organisations don't seem to have even looked in a very deep or public way at the need to refresh their values, as stated in those ways, seems to suggest that there is a danger that we're going to slip back into BAU after a period of time, after we've paid the remediation and updated the code of practice. If something fundamental isn't done, are we actually going to change the culture?

Mr Chronican: There are two things. In many ways, you've answered the question for me. The criticism of the royal commission, in most cases, was that we failed to live up to our own standards. Indeed, on a number of occasions, the royal commissioner himself said that it wasn't that the law needed to change; it was that people needed to obey the law. I think that's a very important point. I take your point that the values have not changed. There have been those values since I first joined the board, three years ago. As I pointed out in my opening statement, we have a new chief executive starting, and I have no doubt that he will want to look at the organisation's values and test whether they're appropriate. I'm not going to commit him to a formal review of them, but it wouldn't surprise me in the least if our new chief executive wanted to have a look at these values and assess their appropriateness for the organisation going forward.

CHAIR: I don't want to interrupt Dr Mulino but, in light of that, you're going to be the chair. Isn't this also a job for the board?

Mr Chronican: Absolutely, but the day-to-day leadership of culture sits on the CEO. The board sets the tone from the top; we set the expectations. I also want to make sure that when we hired the chief executive we gave him the whole job to do.

Dr MULINO: You've made the observation that one of Hayne's conclusions was that we should enforce existing laws better but we are also going to be faced with many pieces of legislative change—we've already seen some and we'll see many more—over the next two years. We're also seeing significant changes to the banking code of practice. It does strike me that, if major organisations in banking, insurance and other organisations are being asked to fundamentally change their culture, that's only one element of it. But to go to value statements in annual reports and other documents, if they look exactly the same, pre and post, just seems to reflect perhaps that the organisations possibly aren't looking deeply enough at their own culture.

Mr Lennon: I might add a point here. You've already raised the main concept that it's about actually living the values as distinct from a problem with the values. We did, and probably prior to Phil being in the active role, go back and review the values in the context of the royal commission and made that decision that it's actually not a problem with the values; it's a problem with ensuring we get the organisation complying with those values. We focused on, rather than changing them, implementing things like monthly pulse checks across our organisation where our staff would be identifying whether they believe that the values were being lived up to. We've nearly put all of our people leaders through programs which are not about what the values are, because I know what they are, but what does it look like when you're following those values? So the emphasis is really about executing, acting and behaving in line with those values rather than changing them. I accept the point that optically it might make a statement to change it. The second part to that is that that is probably something that a new CEO would really look at and ask: do they want to reposition it to make a symbolic statement?

Dr MULINO: Just to clarify: I didn't mean to suggest that the values don't need to be upgraded; I was simply saying some might assert that. If you look at your goals, it says turning customers into advocates. It's plausible that an organisation post royal commission might say that should be changed to defending customers' interests and making them advocates. At the moment, the goal is very kind of net promoter score—we want to increase market share—oriented, which is not surprisingly a goal, but it's plausible that if an organisation were to start with a blank piece of paper it would look a bit different. I'm simply suggesting that it wouldn't be mere symbolism necessarily to undertake a pretty deep review.

Mr Chronican: As I said, we have a new chief executive starting in three weeks time. We have a new head of people in the organisation. I'm sure that they will want to pick up these artefacts and assess them themselves. The important thing, as you know, is how well we get cut-through with our people and we need to test whether this is actually getting through. As Gary has pointed out, we are monitoring the way our people believe we live the values. We've undertaken significant cultural interventions with the leaders taking people through a one-day program—I think some 3,000 people have been through that program this year—emphasising the important cultural levers that we wanted to focus on.

Dr MULINO: So one final brief topic in this first tranche of questions: have you undertaken any analysis in relation to how spending and saving behaviour has changed as a result of the first stage of tax cuts?

Mr Chronican: The economists have done some work on that. I'm not sure how comprehensive or reliable it is, but at the moment it would indicate that a relatively small proportion of the total tax cuts has flown through to consumption expenditure. So I am just a bit cautious, because we take macro spend data across our cards and transactions accounts—businesses—and I'm not sure if that is the most reliable. But at the moment, I think the view of our economist is that so far only about a quarter of the amount has flown through.

Dr MULINO: So that is your best point estimate?

Mr Chronican: It is the only point we have. It is not one I would choose to use; you have asked for it. I am an economist myself and I'm dubious enough about that methodology not to want to rest too much on it.

Dr MULINO: But in a sense you've got a capacity to analyse ABS retail data, which is—

Mr Chronican: Yes, we look at retail data.

Dr MULINO: But you also have your micro data, which would give you a cross reference.

Mr Chronican: What we have been doing and the methodology we have been using is to look at spend data of our customers. Because we know where they live, we can look at spend data effectively by postcode because that helps us understand where there might be issues in a geographic sense, where households might get under

stress. Seeing spending fall in a particular location triggers a question. That was the intent that database was built up with, and now we are using it just for this purpose, to ask: what would that have shown? But as I said, I would not want to hang too much on that analysis.

Dr MULINO: But it is a useful guide.

Mr Chronican: It is interesting.

Dr MULINO: Would you be able to provide some context for that on notice?

Mr Chronican: Absolutely. I think Alan Oster, our economist, is happy to provide that type of analysis.

Dr MULINO: That would be great. Thank you.

CHAIR: One of the concerns that people have raised about the reduction in interest rates has been that it is contributing towards house price rises. I was wondering, does NAB have any reflections on that?

Mr Chronican: Only that we have seen house price rises starting to emerge, particularly in Sydney and Melbourne.

CHAIR: Have you seen an increase in the amount of money people want to borrow as a consequence?

Mr Chronican: Yes, although I am not sure that would be the cause of it. As you would recall, there were some changes in the affordability buffers with APRA so that we are now able to lend more to buyers of property and that has been a reasonably significant change over the course of this year, so for any given level of income, APRA's guidelines to us now allow for the banking industry to lend more.

CHAIR: Even if you have to take this on notice, looking at the data, there has been a change since the change in the APRA guidelines where you are able to lend more. As interest rates have gone down, has it stayed on a steady trajectory or has there been an adjustment on the average loan that is being taken for residential mortgages?

Mr Chronican: I would need to answer that on notice.

CHAIR: Would you?

Mr Chronican: Because I have seen snap data points but, to answer your question properly, I would need to see a time series for it.

CHAIR: And we would get the time series and that would be quite helpful. But is NAB concerned about house price inflation?

Mr Chronican: Initially we were relieved because obviously we were more concerned about house price deflation leading into this period. But obviously, if it turns back into a 2014 style house price inflation—

CHAIR: I think it we are talking 10 to 15 per cent if you base it on the story of yesterday or the day before.

Mr Chronican: That is a forecast. That is not what we have seen.

CHAIR: But that is quite a significant uplift.

Mr Chronican: I am on the record as saying over a long period of time that housing prices in Australia are expensive.

CHAIR: When did you say that, just for clarity?

Mr Chronican: In 2013, I think.

CHAIR: So since then they have continued to rise, stabilised or become more expensive?

Mr Chronican: They got more expensive; they came back.

CHAIR: But are you saying that from a personal perspective around the cost of housing or are you saying that from the perspective of a bank and its lending capacity and the risks associated with that?

Mr Chronican: No, I am saying that from the perspective of the level of gearing in the Australian household sector. Therefore, the Australian household sector is quite highly geared and it is overwhelmingly because of the cost of housing.

CHAIR: So is that from a macro-economic concern rather than from a financial stability concern?

Mr Chronican: Yes, that's correct.

CHAIR: You said that there has been no significant uptick in business lending but there seems to have been one in the non-banking sector across the economy. I am just wondering: does this suggest that the non-banks are cannibalising or taking away business options that traditional banks or larger banks would play?

Mr Chronican: I don't think that's as evident in the business sector. That's very evident in the consumer sector.

CHAIR: It's very evident in the consumer sector but you disagree that it's evident in the business sector?

Mr Chronican: It's not that evident to me, no.

CHAIR: Even in that context, what does that say to you about the operations of the banking versus the non-banking sector, in terms of access to finance for consumers?

Mr Chronican: The major banks, I think, were lending 80 per cent of all home lending only a matter of a few years ago and are now lending something like less than 60 per cent. That tells me that the competitiveness in the consumer lending sector is intense, and we need to sharpen our act and get more of it.

CHAIR: In which area—in terms of price or customer service or both?

Mr Chronican: Certainly in terms of customer service. I think our ability to deal with all the regulatory changes has not been up to the standard that it needs to be to make it a seamless experience for our customers.

CHAIR: Do you see that as an increasing risk in terms of your business operations, potentially, with more and more people going to the non-banking sector?

Mr Chronican: As a business risk to us? Yes, of course.

CHAIR: It being 10.55, we might take a break.

Proceedings suspended from 10:55 to 11:10

CHAIR: I understand, Mr Chronican, you feel you need to make a statement.

Mr Chronican: It has been pointed out to me by people that I may have given an incorrect date in terms of the wealth separation. We are planning for the separation to occur in the second half of 2020. I've been told that I said 2021, in error.

Dr LEIGH: My concerns are a little allayed, thank you.

CHAIR: Thanks, that's great and appreciated. This is a question I asked the banks last week. Has NAB gone through a process of testing its own internal systems in terms of managing the possibility of negative interest rates?

Mr Chronican: We've done high-level analysis, which has shown that we have many systems that cannot handle negative interest rates.

CHAIR: Meaning literally that, if you put in a negative number—

Mr Chronican: There's just no scope for it.

CHAIR: it would say, 'The computer says no'?

Mr Chronican: Yes, there's a little bit of that. For some of our wholesale banking products and systems we've already had to deal with negative interest rates for the Japanese yen and euro in some cases. Generally speaking, the idea of negative interest rates was never contemplated when some of our core systems were developed.

CHAIR: Quite right too. Just for clarity, are you then going through a process, as some other banks are, around testing and updating software to deal with that potential?

Mr Chronican: I don't want to overstate it. We've done—

CHAIR: Acknowledging that it's an extremely unlikely scenario and one that none of us should wish, in my opinion.

Mr Chronican: I would agree with that. The answer to your question is: we've done some high-level analysis of it, but we are not going through trying to build for it either at this stage.

CHAIR: Thank you very much.

Mr Chronican: Can I just add in that context, even in those jurisdictions where negative interest rates have turned up, for example, in government bond rates, that hasn't generally led to negative interest rates being charged on retail lending or negative interest rates being applied against deposit accounts, so it would take an extreme case of negative interest rates for that to happen.

CHAIR: Right. Let's go to your annual report. Page 25 of the report deals with disclosure relating to the AUSTRAC investigations. NAB says that the potential outcome could see 'a significant number' of breaches and penalties. Is that a fair assessment?

Mr Chronican: That is the third time that that note has appeared in our annual report.

CHAIR: In that context then, could you provide some more clarity about what those concerns are and how significant what we are talking about is, both in terms of the dollar value and in terms of the implications?

Mr Chronican: We've reported a number of issues to AUSTRAC, unsurprisingly, dating back to 2017 when one of the other banks had some significant issues arise. In doing an assessment of our own compliance with the AML and CTF legislation we identified some areas where we fell short of the standards—certainly against our own policy and potentially against the requirements of the legislation. We reported those to AUSTRAC back in 2017 and we've continued to look through and identify any other issues we might have. As we find them, we've updated AUSTRAC on those. AUSTRAC work closely with us to understand them and understanding what we're doing to remediate them. The point of putting the note into the contingencies is to make sure that our shareholders and the public generally are aware that this is a potential area, but we've no basis of knowing whether enforcement action is going to come and no basis of knowing, if enforcement action came, what penalty might be applied.

CHAIR: But you've reserved funds in contingency in case of potential penalties?

Mr Chronican: Generally the answer to that is no, because the accounting standards generally require a provision to be capable of estimation and there is no basis for estimation.

CHAIR: So, for clarity, there has been no estimation from within the bank about the potential, say, range of potential exposure?

Mr Chronican: Nothing that's been booked into the accounts.

CHAIR: No, but that's a different answer to the question. So, there has been, but it just hasn't been put into the accounts?

Mr Chronican: Well, we've looked at what might occur, but I don't have any numbers in front of me to be able to answer that.

CHAIR: Okay. Thank you. Going back to one of the issues that was raised by the ACCC in the context of competition and the banking sector—the deputy chair is very fond of asking questions about the so-called loyalty tax, which is not necessarily something that I share, but he's entitled to ask questions as he see fit. That doesn't negate the fact that—what it comes down to is: one of the biggest reforms that's going to be implemented over the next 12 months is in the context of open banking, which I would have thought would have a pretty significant impact in terms of competition. Could you give us an outline of how NAB is preparing for open banking in the context of the forthcoming time frame?

Mr Chronican: Open banking, which I think has a February 2020 target for the first exposure of information, requires things to happen at two levels. One is the ACCC-led work to create a registry that all banks can connect to, and obviously each bank then has to be able to expose its data in the appropriate form, with the appropriate APIs—application programming interfaces—to allow people to access that data as an authorised user. So, our work is twofold. First is to make sure that we're ready internally with the APIs—and I believe we're broadly on track to be ready for February. Second, we are working with the ACCC-led team to ensure that the registry is built and tested so that whatever is released in February is secure and doesn't expose customers to data breaches or fraud.

CHAIR: Are you saying you're on track and ready for the February time line?

Mr Chronican: I think we're on track for our internal work. My understanding is that the registry build hasn't commenced and the timetable at this stage is looking tight from the point of the industry-wide work.

CHAIR: Tight?

Mr Chronican: Yes, tight, meaning that with the time to build the registry and have it tested we're getting up against some close deadlines.

CHAIR: There are a couple of issues around technology and implementation of systems. Technology's wonderful when it's there to help you.

Mr Chronican: Once it's there, yes.

CHAIR: Yes—and when it works! Similar to a question I asked of Westpac and the CBA last week: does NAB do its own internal analysis of the overall banking sector, particularly the health and viability of other banks and their competitors?

Mr Chronican: Typically, for very good reason, we do a review of other banks. As you would appreciate, banking is an industry where you end up with significant exposures to each other, for various reasons.

CHAIR: Yes.

Mr Chronican: For example, we end up holding other banks' debt instruments from time to time, or we may have other exposures to them under guarantees, bonds and things like that.

CHAIR: It's almost a form of financially mutually assured destruction! That is perhaps not the phrase you'd like to use.

Mr Chronican: No. I think it's one of those phrases! The point is that we have to do a credit review of all of our counterparty banks. So, as a matter of course we would look at the financial strength of banks we have exposures to and—

CHAIR: Only the ones you have exposure to? Or also those banks you don't hold bonds for?

Mr Chronican: No, we wouldn't need to do an evaluation of every organisation. There would be no reason for that. But every one that we have an exposure to we would do, yes.

CHAIR: But just for clarity: are there banks that you don't have exposure to where you do an analysis of their health and viability?

Mr Chronican: I can't imagine why we would.

Mr Lennon: The ones that we do have are all the major players.

CHAIR: The big four, but what about the smaller banks?

Mr Lennon: We do it where we have exposure, but where we don't have exposure we would look at them, but more through a competitive lens than a stability lens.

CHAIR: For clarity: on the basis of the stability lens through which you're looking at banks, are there any concerns around the viability of other banks in the context of particularly a lower interest rate environment?

Mr Chronican: We haven't come to that conclusion, no.

CHAIR: You haven't come to that conclusion. How does the bank feel about the idea the Reserve Bank has floated about quantitative easing in its different forms?

Mr Chronican: I'm cautious. Obviously, quantitative easing can take many forms—

CHAIR: Indeed, and they've also talked about extending the time frame for loans provided to retail banks.

Mr Chronican: and the effect of quantitative easing generally is to further depress interest rates. I think I've already made the point that I worry that monetary policy, generally, has lost its potency. I am concerned that we are in an economy today, despite even the data this week, where unemployment rates are hovering around five per cent, and growth is around two per cent, potentially rising to 2¾ per cent, I think the Reserve Bank is forecasting for next year. To get to ultra-low interest rates when the economy is in good shape suggests that there's not a lot left in the event that we do get a shock. So my concern about the current very low interest rates is that we've largely exhausted our firepower on monetary policy and that if we want to see growth in the economy we'll need to look at other forms of growth-promoting activity.

CHAIR: I note the caution, I think it would be fair to say—and correct me if I'm wrong—in your answer to that question. Would it be a fair summation, then, to say that you would be cautious about the efficacy of going down the QE path in its capacity to contribute to growth and to address the current challenges that Australia faces?

Mr Chronican: Yes, I would.

CHAIR: Going back to technology briefly, cybersecurity around banking systems is obviously an important issue for everybody. These issues have been raised previously by other committee members as well, in the context of some of those activities, like those of APRA. To what extent are there plans, and what is NAB currently implementing, to give that sense of confidence around security and risk?

Mr Chronican: We have a huge effort in terms of cybersecurity, and that takes many forms. There is obviously intrusion protection, identifying where organisations or actors, as they're called, might come from and with what purpose. Obviously, there are different approaches taken depending on the purpose of the intrusion. If the intent is outright fraud, then in some ways that's easier to identify—where they're after financial crime. Sometimes the attempts are merely to disrupt the business, and that can include launching viruses into our systems environment or it might be distributed denial-of-service attacks on our organisation. We are active daily in identifying potential threats and shutting them down, and we work closely with all of the authorities across the landscape to assist in that. I haven't recently had any data, but I know that every day there are attempts to attack our environment and every day we are beating them back. And we're building resilience inside our environment to make sure that data is secured and that we can monitor any untoward activity inside our environment as well as protect the external face of the environment.

CHAIR: How many people do you currently hire in the bank to deal with cybersecurity?

Mr Lennon: I'm not exactly sure of the number, but I was going to give a perspective on the quantum that we spend. We spend a significant amount on cybersecurity, and it's growing because the threat is growing. Just to give the committee a sense of it, it's in the order of $100 million to $150 million.

CHAIR: Annually?

Mr Lennon: Annually.

CHAIR: And off a base of how much, say, only five years ago?

Mr Lennon: It has probably at least tripled.

CHAIR: Right, so it's a significant increase.

Mr Chronican: Absolutely.

CHAIR: And it is projected to continue to go up?

Mr Lennon: Yes.

CHAIR: But you don't know, or you can't give me the answer now, about how many people are employed in this space?

Mr Chronican: No, but we're happy to provide that on notice.

CHAIR: Sure, take it on notice; that's fine.

Mr Chronican: Yes.

CHAIR: But it's clearly going to be an ongoing area of focus and interest for all of us. We have our own challenges at our end; it is not just something for NAB.

Mr Lennon: And we increasingly try to be proactive, particularly with our customer base and our SME and business customers around raising awareness about what they can do. I think recently some of the NAB executive launched some of that awareness campaign.

Mr Chronican: There was a cyber security summit for our business customers where we've been helping customers identify those threats, because it's not just big organisations that are exposed to this. Many of our medium-size business customers have incurred loss as a result of cyberattack, so we're trying to make sure that our experience on this can be passed through to our customer base.

CHAIR: Since we're on the topic, how have you felt that has gone, in terms of awareness by small and medium businesses?

Mr Chronican: I think it's gone really positively. Everything I've heard over the last couple of weeks from that is that it has been well received by customers. I think we're going to continue to offer that.

CHAIR: Politely, there's a difference between being well received and actually taking preventive action. Do you believe that there's a trend where small and medium businesses are actually understanding the gravity and need to take preventative measures?

Mr Chronican: Yes, because, as I've said, many of them have suffered loss and realise how important that is.

CHAIR: I feel remiss to ask a question on your final day in your current capacity, but, in the context of your predecessor, what role did the Human Group scandal have in your predecessor's departure and how is the bank ensuring it doesn't happen again?

Mr Chronican: Andrew resigned, I think, for a host of reasons after the release of the royal commission report. Essentially, I think Andrew and we all felt that, in the wake of the criticism of the royal commissioner, it was difficult for him to lead the organisation out of the issues.

CHAIR: Because of perceptions and public trust?

Mr Chronican: Just perceptions. I think for both Ken and Andrew, when you think about what the royal commissioner had to say in his report, it was very difficult to deal with, and it was very difficult for the organisation to move forward. The Human Group alleged fraud obviously was a major failing of controls in the organisation. It caused us to have to look quite deeply at both the process issues and the cultural issues that allowed for that to occur. Obviously, on the specific issue, which is the financial controls, the office of the chief executive have had very tight scrutiny over them. I'm pretty confident that specific issue would not arise again under the current environment, but it's never the same thing you're looking for. It's usually the parallel of how a person could be in a position of such influence and allow for that to happen. That clearly is an ongoing source of concern for us. Gary's in charge of the financial control environment and has tightened up all the controls around that.

CHAIR: Did you want to make a remark, Mr Lennon?

Mr Lennon: It's clear that, in Andrew's office, they had fallen away. There was an element of—we've always got to be careful about how we talk about this case—what seemed like misplaced trust. And then, off the back of that, expected control protocols dropped off.

CHAIR: In that context, Mr Chronican, at the start of your term as acting CEO, we would say that a reflection at least of the office of the CEO trust was compromised. Would that be a fair assessment? I will use that word; you're welcome to use another one. And then, at the end of your term, going to the position of chairperson shortly, how would you rate your capacity to have rebuilt that trust?

Mr Chronican: It's for others to judge, but I've certainly done everything I can to be very open with all of the key stakeholder groups that rely on the bank to be in a position of trust. Those involve shareholders, our staff, our customers, the community at large, our regulatory supervisors, organisations and committees, such as your own. All you can do in an organisation like this is to be as open and honest as you can and be clear with people where there are problems—we acknowledge them and we deal with them and we update people on progress. That is what I've endeavoured to do over the course of the last eight or nine months.

CHAIR: So it would be fair to say there's been progress but there will always be more work to be done.

Mr Chronican: Absolutely. In terms of the community trust, we were under no illusion that it was going to take a long time to fully rebuild trust and that all we could do was knuckle down and get going with the work, and that's exactly what we've set out to do.

Dr LEIGH: Mr Chronican, I want to return to the issue of wealth management. We discussed before the divestment of MLC, but NAB has made a decision to keep JBWere. Isn't this a case of 'make me chaste and pure, but not yet'?

Mr Chronican: I'm not quite sure I understand the perspective of that question.

CHAIR: To be fair, I didn't understand the question either, Deputy Chair.

Dr LEIGH: Isn't this a case of NAB only partially divesting wealth management? What's the logic for keeping bits and pieces of wealth management activities?

Mr Chronican: The JBWere business is a business for high-net-worth clients, an increasing number of whom are customers of the bank—for example, are longstanding business customers of the bank—who reach a point in their life where they decide to retire from their business and have ongoing needs but no longer have borrowing needs; they have investment needs. The reason it's domiciled within the business and private bank is that it's an extension of our strategy for dealing with our business customers and our private bank customers and the needs that they have for services. What it is not is a mass market consumer wealth management business.

Dr LEIGH: So you don't see conflicts of interest arising?

Mr Chronican: No, not in the same nature, because the JBWere business doesn't provide any investment product in its own name. It's a platform for buying investment products issued by other organisations.

Dr LEIGH: What other parts of NAB will continue to provide wealth management financial planning activities into the medium term?

Mr Chronican: I'm hesitating here only because my mind has turned to whether or not the BNZ business in New Zealand has some of that, but Gary—

Mr Lennon: They've still got a small insurance company in New Zealand.

Mr Chronican: So there are some elements of those businesses in our New Zealand subsidiary.

Mr Lennon: Of course, we'll still be involved in wealth management to the extent that our customers need that service, and it will be just a totally different engagement where we will spot and refer to other providers. So you need to provide customers with access to it; we just won't be owning the manufacturing of work products.

Mr Chronican: There is one other platform that has an element of connection to the wealth management industry, which is that we have an online capability called nabtrade which allows National Australia Bank customers to purchase other parties' investment products, and nabtrade would effectively be the custodian and the avenue or portal for how they hold that. That would be the other one.

Dr LEIGH: Do you see nabtrade as potentially creating any conflicts of interest?

Mr Chronican: I don't see how. Because we're not managing the underlying investment product, and it's a self-directed investment—we're not providing advice—it's really just a transaction and custodial facility for the customer.

Dr LEIGH: I want to return to the issue of culture and ask you some questions about the bank's staff survey. According to a report earlier this year, in your 2018 staff survey around a quarter of your staff said that they 'feared retribution if they reported unethical conduct.' Has the 2019 staff survey reported an improvement in that figure?

Mr Chronican: I don't recall that specific answer. What I do recall about the 2019 survey is that, in aggregate, most of the categories were largely unchanged from the previous year. So the aggregate engagement level was largely the same, but I can't recall that specific answer.

Dr LEIGH: Would you agree that it seems a frighteningly high figure if a quarter of your staff fear retribution for doing the right thing?

Mr Chronican: It's absolutely one of the questions that I was most disappointed with, yes.

Dr LEIGH: Your 2018 staff survey also asked people whether they agreed with the statement, 'People who deliver strong results aren't excused from the rules.' Only 25 per cent said that they agreed with that statement. That seems, again, somewhat troubling?

Mr Chronican: Yes, that certainly was. I agree with your proposition that the work on culture was needed and areas like people feeling comfortable speaking up—and this comes down to the point I was making earlier: you can say what you want about culture but how you are seen to behave is much more powerful, and people do need to see that we put values and culture above financial performance. I absolutely agree with your premise, which is: these are things that are disappointing for an organisation of our nature and they need to be changed.

Dr LEIGH: But it must be particularly disappointing to you if those measures haven't improved from the 2018 to the 2019 staff survey?

Mr Chronican: Because it's only done annually, it's hard to know exactly what's in the minds of people and, from my memory, these surveys are done around May of each year. The royal commission report came out in the first week of February, I came into the organisation as an interim CEO in March and we had very little time to turn that around. So I absolutely take your point: it should have improved, and the annual survey is a slow measure for getting a feel for that.

On top of the annual survey, we're also doing a monthly pulse survey, as we call it, and that has shown slow but steady improvement over the course of the year in terms of people feeling that the organisation is real about its values and lives its values.

I think we are making some progress, but I'm under no illusion that there's serious work that needs to be done to make people more comfortable with raising issues and make sure that we reinforce the message that it is important to lead from a values-led perspective.

Dr LEIGH: Would you undertake to provide to this committee the results of the 2019 staff survey, or a summary of those results, particularly going to the questions that we've discussed today?

Mr Chronican: I see no reason why we would not do that; I'm happy to do that.

Dr LEIGH: In a report by Edmond Tadros on 3 August this year, he discussed the decision that NAB made to engage EY, your auditor, to perform a statutory report about NAB's risk management function—something which led some to argue that there was a conflict of interest between asking an auditor to perform non-audit roles. How does NAB justify the decision to select EY for that task?

Mr Chronican: The risk management declaration that was the underlying body of work is a declaration by the board to APRA about the state of our risk management systems. The role of the external party in this case is to do a testing and assurance piece of work over the robustness of the underlying systems that came up with that report. The work is assurance in nature, so in fact the work is effectively an audit of the risk management declaration, and that's why we formed the view that the organisation best placed to provide that assurance work was the organisation that was doing the assurance work on the production of our annual accounts, which is the auditor.

Dr LEIGH: My understanding is that other banks didn't take that approach and—

Mr Chronican: So APRA did not require it to be the auditor. We felt it was worthwhile that the auditor did it. My understanding was—and I might be stretching this a bit—that at least one other bank felt that EY independently was better placed to do it and chose EY for other reasons. But our conclusion that we came to was effectively that we saw it as being assurance in nature and that our auditor was the best placed firm to provide that service.

Dr LEIGH: I wasn't so much having a go at EY as your decision to engage your auditor to do that project, unlike other banks.

Mr Chronican: I understand that. When you engage advisory work like this, you have to go through the test of asking that because, generally speaking, you would not employ your auditor to do work that is discretionary. There are some things that you do that aren't part of the audit but which it's almost impossible for a firm to do that isn't the auditor. For example, if we're doing debt raisings offshore and we need to have a clearance certificate signed by a firm, the auditor's the only firm that's really in a position to do that. When looked at through that lens, we felt that this work was assurance in nature and that the same processes that would be tested to support the annual financial report were the ones being tested to support the risk management declaration. But I am aware that other banks came to a different conclusion.

Mr Lennon: There is an additional dimension to this. We do engage the other accounting firms to do a whole range of work, including assisting with developing some of our risk and controls et cetera. It was certainly within our thinking as well that other firms could be argued to be more compromised than EY, because they could be in the position of trying to assess their own work. Under our policy, that is what you don't want; you don't want someone doing an audit review potentially auditing the work they have helped set up. Many of the other accounting firms were potentially in that position.

Dr LEIGH: I'm not the only one to have raised concerns about this. Reportedly, the finance minister, Mathias Cormann, also called on the bank to explain it. In retrospect, do you think it was a mistake? Would you do the same thing again?

Mr Chronican: No, I don't think we've seen it as a mistake. We continue to believe that the work was assurance in nature. As Gary's just pointed out, the reality is that employing another firm that we have had a lot more discretionary business activity with to do it probably presents an even bigger conflict.

Dr LEIGH: You've said publicly that you think monetary policy has run out of puff. In your words, Mr Chronican:

I'm not convinced that rate cuts are effective, and indeed they have a perverse impact.

Do you stand by that view—that at least conventional monetary policy has reached the end of the road in Australia?

Mr Chronican: I made the point earlier that I think we're in a situation now, with interest rates at around half of one per cent in an economy which is not exactly in desperate straits, where we've pretty much run out of room. I think, as a number of other parties both here and offshore agree, taking an economy like ours into negative interest rate territory just doesn't seem appropriate. I would be troubled by that.

Dr LEIGH: How would you characterise where we are at the moment in the business cycle?

Mr Chronican: It's a difficult one. Globally there's been a long expansion off the back of the downturn in 2008-09, so we're in a late-stage expansionary cycle where it does seem that we have got into—I'm trying to get the right word. There's no great driver of growth left in the economy at the moment. The last time the national accounts were released, the only significant driver of growth was public-sector investment, and that was largely state government. Consumer expenditure is not growing strongly. Business investment is weak. Exports are okay by volume; that's a function of a lot of the investment being done over recent years. But we're not in a position where we can easily identify where the next wave of growth is going to come from. It's one of the reasons why I'm more concerned about finding ways of encouraging business investment than necessarily other ways of stimulating the economy.

Dr LEIGH: Would it be fair, then, to say that, if monetary policy has run out of puff, we need more fiscal policy? Would you agree with the call by a number of bank economists for additional fiscal stimulus, such as bringing forward middle-income tax cuts, accelerated depreciation and additional expenditure and infrastructure?

Mr Chronican: For me there are three legs to the stool, not just two. Monetary policy and fiscal policy are useful at the right time and in the right context for helping stimulate economies, but the long run rate of growth in the economy is a function of the productivity reform agenda. While I certainly appreciate that there are positives that can come from the use of fiscal measures, particularly if they do support business investment—I'm absolutely supportive of that; anything that can help our business customers invest for growth would be helpful—I also think that we need to get structural reform back on the agenda. That's where I've probably put more of my emphasis.

Dr LEIGH: Would you support the reform, then, to move from stamp duty to land tax at a state and territory level?

Mr Chronican: My recollection is that that was one of the recommendations of the Productivity Commission's Shifting the Dial program in 2017. I'm under no illusion about how hard that transition would be. The New South Wales state Treasurer, I think, has been an advocate for trying to drive some of that type of

agenda. But, if I go back over, NAB itself produced a report, in conjunction with our customers, called *A deregulation plan for Australian SMEs* a few years ago. The Productivity Commission's *Shifting the dial* report in 2017 identified a whole range of issues, including some state taxes that were productivity barriers. We contributed actively to a body of work with the CSIRO last year on the Australian National Outlook project—

Dr LEIGH: Yes, that's a good report.

Mr Chronican: which was a good report. That came up with some things that we can do, including helping foster innovation. We've targeted $2 billion to support technology and innovation businesses. And of course the government has established its Deregulation Taskforce under Assistant Minister Morton. We're actively working with that task force, in a sense to refresh the 2014 piece of work we did on the deregulation plan. So we're working in conjunction with the task force to survey our customers as to what they see as the biggest barriers to investment. This is a piece of work that we are quite committed to.

Dr LEIGH: Going back to fiscal policy, what would you expect to be the impact on business investment if the government were to flag that, in six months time, it intended to put forward an accelerated depreciation measure? Would you expect that would cause firms to invest more or less in the short term?

Mr Chronican: Somehow this feels like a trap.

CHAIR: Admiral Ackbar style.

Mr Chronican: Sorry?

CHAIR: It's a meme—Admiral Ackbar from *Return of the Jedi*: 'It's a trap!' But it's important for businesses.

Mr Chronican: The best question is: what's good for business? I take your point that any time you announce a policy measure with a delayed start date, it always has behavioural impacts. People who are disadvantaged by it bring activity forward, and people who are advantaged by it may defer activity. But that's a procedural issue for those who hold the reins of government to make their decisions on. I can just agree with your observation that any forward announced policy can lead to behavioural changes.

Dr LEIGH: I'm curious about your observations around the channels through which monetary policy operates. You were saying, if I read it right, 99.3 per cent of your customers choose not to have their monthly repayments reduced when the rates are cut.

Mr Chronican: I just want to clarify that: under the NAB branded home loans—the main bank's home loans—it's not that the customers choose not to; it's that our system doesn't automatically take them down. However, we operate two other platforms, which are a product called Advantedge and also through our UBank subsidiary. Those platforms do automatically adjust down the repayments. So 99.3 per cent of the bank ones don't, but, if you take it across the whole of our home loan exposure across those three platforms, that number comes back to something like 77 per cent.

Dr LEIGH: Some people have argued that this doesn't mute the effectiveness of monetary policy. They say the rate cuts flow through to a stronger confidence effect because people are paying off their mortgages faster. They may not have more money in their bank accounts, but they have less money on their mortgage, and therefore the impact of the rate cut on the economy is just as strong as it would be if rate cuts automatically led to reduced monthly repayments. What's your view on that? It does seem fairly important as we think about whether changing the default would improve the effectiveness of monetary policy?

Mr Chronican: I take the point in theory—in practice, I think—because that's effectively arguing that the wealth effect plays through. I don't have data to support what I'm about to say, but I would hazard a guess that the wealth effect plays through over a very long period of time; the cashflow effect is much more immediate.

Dr LEIGH: That's my intuition as well. The return on equity for Australia's largest banks has trended downwards over the last five years from mid-teens through to closer to 10 per cent—still not quite as low as you see in the Euro area, Britain or the United States. Given we have still a fairly high excess return in the Australian banking sector, do you think that is in any way societally necessary? Is it important for Australia to have banks which have a return on equity significantly above many other countries or many other sectors of the economy?

Mr Chronican: It's certainly not above other sectors of the economy. I think last time I saw the analysis the return on equity of the ASX 100 was somewhere around 15 per cent. It's below the return on other sectors of the economy. You commented about United States banks. My understanding is that US banks' ROEs are trending upwards and have reached around 11 per cent on average, quite close to the Australian level. The other point I'd make is that European and British banks with structurally very low ROEs are struggling to meet the demand for credit, because they don't earn enough to attract new capital and to reinvest. I'd be cautious of using as a

benchmark the ROEs of banks that are failing to fulfil their role in the economy. I do think it's important that banks earn an adequate return on equity to continue to raise new capital, support growth and support lending.

Dr LEIGH: At what point do lower ROEs affect Australian banks' ability to raise funds offshore?

Mr Chronican: Certainly if the ROEs got low enough that the rating agencies felt that our credit ratings were unsupported then that would be a source of concern. I can't put a number on that. But Australia is an economy that has grown over 230 years or more off the back of foreign capital. We've had high rates of growth that have leveraged that foreign capital. The banks have been a huge transmission mechanism for foreign debt into the Australian economy, and that has supported growth over a long period of time, so it is important that the Australian banks retain very solid credit ratings, because that would be a negative. Many of the structurally unprofitable banks in the European domain are unable to play that role, and their credit ratings would not support that level of debt. I think the better comparisons are the US and Canadian banks.

Mr CRAIG KELLY: I have further questions on your thermal coal export decision. That kicks in at 2035?

Mr Chronican: At the 2035 point the only thermal coal exposure we expect to have left will be environmental remediation bonds to support the customers remediating their mines.

Mr CRAIG KELLY: That applies to both export of thermal coal and thermal coal for domestic production?

Mr Chronican: Yes, it does.

Mr CRAIG KELLY: It's not for 16 years time. Nothing happens between now and 16 years?

Mr Chronican: There's a phasedown. As I said, we have been working with our customers to identify that phasedown. We expect it to be, by 2028, about half the level it is now.

CHAIR: Just for clarity on that: when you say phasedown—not the issuing of new financing facilities and then no refinancing options; is that what you meant?

Mr Chronican: There will be no completely new exposures. Obviously with our existing customers there will be times where we refresh and fine-tune, because they may wish to do some expansions or some work. But, as the major projects then retire—and most of these customers have got their own forward schedule for when they expect their production to be phased down—we would expect that there would be, effectively, a glide path of those facilities as they mature, and that's the path we'll work towards. There will always be some increases and decreases you go through over time, because you've got to work with the customers in terms of what their needs are.

Mr CRAIG KELLY: But this doesn't apply to metallurgical coal?

Mr Chronican: No, it does not.

Mr CRAIG KELLY: I think you mentioned before that your exposure to thermal coal was $760 million?

Mr Chronican: I think Mr Lennon said, yes.

Mr CRAIG KELLY: What's the exposure to metallurgical coal?

Mr Lennon: I haven't got that with me.

Mr CRAIG KELLY: Maybe you could take that question on notice. Are there any other sectors of the economy where businesses are engaging in lawful activity that the bank has decided it will no longer finance?

Mr Chronican: Engaging in unlawful activity?

Mr CRAIG KELLY: No, lawful activity.

Mr Chronican: There are some—

Mr CRAIG KELLY: Say, for example, someone came to you and said, 'I'm a producer of X-rated videos, and this is my business plan.' Does the bank have a prohibition on loaning to companies that make X-rated videos?

Mr Chronican: The bank does not have a prohibition—not that I'm aware of—on X-rated videos, but we do have a risk assessment that we're required, by AUSTRAC and other regulators, to apply to customers who are in high-risk sectors. That includes sectors where there is a high risk of, for example, money laundering, a high risk of human trafficking or a high risk of being associated with organised crime and drugs. We would have a much higher threshold required for us to be engaged in those.

Mr CRAIG KELLY: But there's not a flat out ban like you're going to put on thermal coal? If someone came to you with an X-rated video business, you would loan to them. But what if I came to you and wanted a loan to start a thermal coalmine? Is it no to thermal coal but potentially yes to the X-rated videos?

Mr Chronican: My point about the X-rated video business is that it would require a much higher threshold than lending to the corner store, because of potentially an issue of—

Mr CRAIG KELLY: Yes, but my point is that there's an industry sector that the bank has put a black line through, and that is the thermal coal industry, but the X-rated video industry is a potential tick, depending on the circumstances. It's not crossed out, like thermal coal.

Mr Chronican: Yes.

Mr CRAIG KELLY: So you've got thermal coal as bad but metallurgical coal as good. Down the track, what other sectors of the economy may the bank not loan to based on the CO2 threshold?

Mr Chronican: I think you already, in your earlier comments, referred to the rest of the fossil fuel industry. Generally, over time, as science around renewable energy gets more advanced and the government's program for compliance with Paris continues, and as we learn more about it, there's the risk that other fossil fuels will become riskier for us to lend against.

Mr CRAIG KELLY: What about the agricultural sector of the economy, which is responsible for about 14 per cent of Australia's greenhouse gas emissions? Could that be in the bank's sights?

Mr Chronican: My understanding is that the focus there will be on ways of ameliorating it. In the near term, probably the most pressing part of our portfolio there would be the New Zealand dairy industry. The New Zealand government are bringing in an emissions program which they've temporarily excluded the agricultural sector from. But in due course, as that changes, there will be costs.

Mr CRAIG KELLY: So there's the potential that the bank would no longer loan—

Mr Chronican: There's the potential for that industry to become—

Mr CRAIG KELLY: Right—to have a black line put through it, like the coal industry.

Mr Chronican: It's a risk based assessment around our lending into an area where the underlying value of the asset or activity has the prospect of declining. Where you get agricultural emissions, I know there is quite a lot of research on ways that it can actually be offset or reduced at source, so I don't think that's a black-and-white issue at all.

Mr CRAIG KELLY: Regarding someone who has a thermal coalmine now that is financing with you, when we get to 2035 isn't it likely that they'll go and refinance with someone else—potentially where their customers are: a Chinese or Indian bank?

Mr Chronican: That's quite possible, but, as I said—

Mr CRAIG KELLY: If that happens and there's no change in CO2 emissions whatsoever, it's simply that we have foreign banks with a bigger hold of the Australian economy?

Mr Chronican: The basis for our position on this is that, if the world does adhere to what has been publicly committed to, there will not be that activity and it won't be as economic.

Mr CRAIG KELLY: But you're not basing it on an economic decision; you're just putting a straight black line through the Australian coal industry to loan to until 2035.

Mr Chronican: No, we're basing it on the basis that, in order for Australia and the world to meet the targets that have been set, that coal is unlikely to be used if that happens.

Mr CRAIG KELLY: As you mentioned before, the board has not considered the fact that the black coal is exported to countries where it is used as an alternative to brown domestic coal, especially in India and China, and it would actually lower emissions. You've admitted that's something the board has not considered.

Mr Chronican: The board is absolutely aware of that.

Mr CRAIG KELLY: This doesn't cut in until 16 years time. What's the average number of years of a board member for the bank?

Mr Chronican: Most board members are capped out at about nine years.

Mr CRAIG KELLY: So, effectively, other board members will come in, replacing all the board members that made this decision. They're making a decision that's outside their tenure period.

Mr Chronican: Any time we make a long-term decision, that's true.

Mr CRAIG KELLY: You're saying it's highly unlikely that any board member who made that decision will still be there when it actually takes effect?

Mr Chronican: Of course.

Mr CRAIG KELLY: How does it benefit the Australian economy if we have Australian banks refusing to loan to a sector of that economy which will then only be loaned to by foreign banks?

Mr Chronican: The premise of that is that that's what happens. This policy was premised on a projection that the energy needs of Australia and broader in the region will increasingly be met by other sources.

Mr CRAIG KELLY: But shouldn't that be up to governments and the industry to decide, and the bank to make—

Mr Chronican: The government committed to the Paris accord, which requires a 45 per cent reduction in total emissions by 2030. If that is what is delivered, then it's sensible that we scale it down.

Mr CRAIG KELLY: No—our emissions reduction is at 26 per cent to 28 per cent by 2030 of 2005 levels, not 45 per cent.

Mr Chronican: Globally, the Paris accord will require a 45 per cent reduction, according to the IEA.

Mr CRAIG KELLY: But, on what has been signed up to, Australia's Paris target is currently at a 26 per cent to 28 per cent reduction of 2005 levels by the year 2030.

Mr Chronican: Yes, I understand that.

Mr CRAIG KELLY: That is separate.

Mr Chronican: A separate issue.

Mr CRAIG KELLY: A final question: are you aware of the case of Tomcsanyi in Western Australia?

Mr Chronican: No.

Mr CRAIG KELLY: You made the comment that the bank is acting as model litigants. Perhaps you could take it on notice: do you believe that the bank's conduct in that case has met the definition of a model litigant?

Mr Chronican: I'll find out.

Dr MULINO: I have a couple of questions around governance. We talked a bit about culture earlier. Obviously, the royal commission made some findings in relation to governance as well. In relation to board behaviour, it found that, too often, boards didn't get the right information about emerging non-financial risks; didn't do enough to seek further or better information, where what they had was clearly deficient; and did not do enough with the information they had, to oversee those risks. I'm just wondering, post royal commission, what kind of concrete steps have been implemented to change the way that the board operates.

Mr Chronican: In addition to the royal commission making those findings, about a year ago we also released our board-led self-assessment of culture and governance in NAB, and the findings of that, while not identically worded, were very similar, in terms of their conclusion that the board needed to step up its supervision of the management of risks, including non-financial risks. As a result, we have overhauled the risk reporting and the way in which the risk committee operates and then reports back to the rest of the board. So we've taken the royal commission's commentary and the recommendations of our own self-assessment very seriously.

Dr MULINO: In terms of concrete changes: for example, would the agendas of board meetings look different now than pre royal commission?

Mr Chronican: One change is that the risk committee itself spends more time, so the meetings are longer, and we've had more risk workshops on areas of particular interest for a deep dive, and then, for the main board agenda, we have more time set aside for the reporting back by the risk committee chair, including a designated session with the Chief Risk Officer with the whole board, and that's an important part of that process as well. I think I'm right in saying that almost all reports on issues—well, where it is relevant, I should say, the papers that come from management also come with a separate risk view. That's typically one page attached to the paper which gives an independent risk perspective on the management initiatives.

Dr MULINO: Obviously, for the board to make the right decisions, they need the right information in front of them. Has the content of what goes into board reports changed? I'm thinking about it in relation to issues like breaches of the law, or dispute resolution—one of the issues we talked about earlier. Is the board now, at its meetings—whether of the board as a whole or subcommittees—in possession of materially different information than it would have been two years ago?

Mr Chronican: It's certainly getting more information, and it's getting more detail—which is not always necessarily the best thing, but it is getting more detail. The more important thing is: I think it's getting deeper into the real cause of issues. One thing that I think is one of the more important developments is that the quality of the conversation and the quality of the interrogation of management, at board, is now a lot more focused, because the

board members themselves realised that we needed to dig a lot deeper into some of the issues that were being reported on.

Dr MULINO: And obviously it's not just about process, but, in the case of remediation, for example, it's about the board satisfying itself as to outcomes—

Mr Chronican: Correct.

Dr MULINO: It would want to make sure that its own processes, but also processes in the organisation, have improved such that—

Mr Chronican: Such that we actually get tangibly better outcomes—that's right.

Dr MULINO: On mortgage stress: are there any areas in which mortgage stress is particularly high, or increasing, or both?

Mr Chronican: Generally speaking—and we mostly use the measure of loans that are 90 days delinquent as the key indicator of that—that number has been drifting up. It's very low, but it has been drifting up. If you look at it on a regional disparity, for the last few years Western Australia has been a particular area of concern, because it has been the highest, followed by Queensland and, I think, South Australia—

Mr Lennon: Northern Territory.

Mr Chronican: and the Northern Territory. Typically, though, New South Wales and Victoria have been lower, and there are a whole range of reasons for that. Obviously in WA it's because of the tail end of the resources investment cycle. So we do monitor that. We also monitor another indicator, which is the number of properties or home loans that are in negative equity, where people have bought a property and the underlying value of the house has fallen below the value of the loan. That, we estimate, is around 2.4 per cent of our total loans. In many cases that's only a very small difference, but in some parts of the country, where house prices have been falling, we're aware that the house prices have probably fallen below the value of the customer's loan. That's another stress indicator that we look at.

Dr MULINO: Is it fair to say that one of the key economic indicators that stress is correlated with is the unemployment rate?

Mr Chronican: Yes.

Dr MULINO: So you're seeing that there are some pockets in WA and Queensland where—

Mr Chronican: Yes. There's budget stress, which you might call a low-level stress and which is households finding bills difficult to pay. Typically in a housing cycle, when it gets serious is when people lose their jobs, because then it's a 100 per cent stressful problem.

Dr MULINO: Have you found that the way you deal with cases of mortgage stress has changed?

Mr Chronican: Yes.

Dr MULINO: Post royal commission?

Mr Chronican: We started this change prior to the royal commission, but it's certainly changed over the last couple of years. We have a group which we call NAB Assist which works with customers in financial stress, and I think it's taken a much more proactive and positive view about how to deal with customers going through difficulty, including putting them in touch with community financial counselling groups or other community support networks that can help people who are going through temporary financial stress.

Dr MULINO: Part of that is about trying to avoid default wherever possible?

Mr Chronican: Correct. We're trying to work with customers to avoid a situation where, when they get into a position of financial stress, that leads to a bad outcome. It even comes down to things like finding if people have just lost a job or are not getting enough hours at work and putting them in touch with local groups who might be able to help them with their job search or whatever. Sometimes it's putting them in touch with some of the not-for-profit organisations that can assist people in stress.

Dr MULINO: Have you evaluated that?

Mr Lennon: The track record of this team is impressive, we think. In around 97 per cent of the cases, those customers that get into trouble are back on their feet within 90 days.

Dr MULINO: Are you able to provide a bit of information on how that team's performing?

Mr Chronican: Yes. We're so proud of them we provide everything we can on it. We think it's a very strong part of the overall NAB business offering.

Dr MULINO: Thanks.

CHAIR: Just to build on that—noting that you're obviously very proud of the work that you do in that space and that you say that, when people fall into a position of stress, within 90 days they're back on their feet—has there been analysis that's been done looking at the risks of people relapsing into similar circumstances?

Mr Chronican: Again, I'd have to take that on notice. I'm not aware. I think usually it's episodic for customers. I'm sure there are some who then get back into stress, but, generally speaking, where this offering works best is when our customers have gone through some temporary financial stress. We work with them to help them find a way through it, and then they get back into being established and remain good customers of the bank.

CHAIR: Thank you very much for your attendance here today. I am mindful that it is your last day in your current role, so we thank you for your two appearances before this committee. By the way, both have been, I thought—I must clarify that this is a personal view—matter of fact, of high quality and appreciated. That's when these relationships and this process work best. So, at least for myself—and I hope I speak on behalf of other committee members—we wish you well in your endeavours in your new role and in continuing to rebuild public trust and also holding the new CEO to account. I think you've committed for him today that he's going to meet with customers, or at least that's how the *Australian Financial Review* has interpreted it.

Mr Chronican: Yes. He will be very pleased to hear that.

CHAIR: The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You'll be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact.

Proceedings suspended from 12:14 to 13:16

CORBALLY, Mr Kevin, Chief Risk Officer, Australia and New Zealand Banking Group

ELLIOTT, Mr Shayne, Chief Executive Officer, Australia and New Zealand Banking Group

CHAIR: Good afternoon. We shall now resume our hearing of the House of Representatives Standing Committee on Economics looking into the big four banks and other financial institutions. We resume this afternoon's hearing following the National Australia Bank this morning.

For the witnesses who were present this morning, I read through a whole series of statements about the history and traditions of this inquiry. I presume you are satisfied that I don't need to go through all of that, but I am happy to do so if you wish, including all of the legal obligations expressed—

Mr Elliott: No, we're very familiar with those, thank you.

CHAIR: That's good. We now have with us representatives from the ANZ for today's hearing. I remind you that although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. As usual, if we ask for information we expect answers. We can ask question on notice in preparation and following, and if you choose not to provide an answer you should state the reason why and the committee can then discuss whether it wishes to compel an answer. I now invite you to make an opening statement.

Mr Elliott: Thank you, and thank you for inviting ANZ to appear again. With me is Kevin Corbally, our Chief Risk Officer. I'd like to start by expressing my concern, and our concern, for those all those affected by the fires in New South Wales and Queensland. It's an awful event for so many. As we've done for our customers hit by drought, we're offering a financial relief package to provide some help at a very difficult time. If more is needed, we will do what we can to support our customers and our staff.

In February, the royal commission's final report set out how our bank and others had failed their customers. Today, this inquiry allows the committee to ask what has been done to repair that failure. At ANZ, we're paying customers back and acting on the commission's recommendations. We currently estimate that over 3.4 million accounts need fixing. To date, we've made good on over one million of those. But part of our work is also learning from these failures; we're teaching our people about what went wrong and how it affected our customers, and we're determined that history is not repeated.

To meet the letter and the spirit of the royal commission's report we've made significant progress on the 16 initiatives we announced in February. These initiatives are actions we can take to respond to the commission's report. Importantly, we've reformed how we pay people, to reduce bonuses and better align ourselves with our customers' interests. We've also met 13 of the 15 Sedgwick pay recommendations which we can act on now, and we're almost complete on the other two. We've made our senior executive accountability framework much stronger, and we've implemented principles to help family farmers who are in distress.

We've more to do to rebuild trust, but paying people back and acting on the royal commission are important first steps. This inquiry also allows the committee to ask how well Australia's banks are serving the nation. Stable, competitive banking is essential to a strong, growing economy. Our strategy is to help improve the financial wellbeing of our customers. We're here to help those who want to buy a home, start and run a business or trade through our region. If we do this well we will help the economy and generate sustainable returns for our shareholders.

Over recent months interest rates have hit new lows and competition has been intense. In addition, ANZ hasn't always approved loans as quickly as we should have, and our 2019 results reflect these issues. Our return on shareholders' equity is down to 10.9 per cent, well below the ASX 50 average of just over 16 per cent. Despite this, we've maintained our dividend to provide a fair return to the millions of Australians who own our shares either directly or through their super fund. And customers who borrow from us, both new and existing, are benefiting from low interest rates and strong competition. However, lower rates mean that depositors will receive less, and the narrowing gap between what borrowers pay us and what we pay depositors also reduces earnings. So, balancing the interests of borrowers, depositors and shareholders will become even more challenging if interest rates go lower. This environment demands that we focus on our strategy and that we execute it well.

I've spoken recently of grey areas and the responsible lending standards. ASIC has done a good job at consulting broadly on these laws, and we look forward to its guidance. Clarity is important with all regulation. If we know where the line is, we can lend confidently. If we step over it, then the regulator should hold us to account. But if the line is unclear, we should discuss this openly and constructively. Reaching a clear

understanding of our laws is the best path towards confidence in banking and a stronger economy. Thank you, and we look forward to your questions.

CHAIR: Thank you very much. To begin, I will ask the same question I asked of every other CEO who's appeared before us. Knowing what you know now, in the context of the royal commission—everything that's come out about the misconduct, the consequence of culture within banks—would you have chosen banking as a profession?

Mr Elliott: Yes. I'm proud of the profession I work in. The best parts of my day and my week are when I visit customers and see the very real positive impacts we have on their lives. But obviously events like a royal commission rock your confidence in that, and when you get to see the very negative impacts that our actions can have on those customers. But on a net basis I'm very positive about it and I think we can be a force for change in the industry and focus on the very positive things we do for the economy and for our customers.

CHAIR: When you say 'we', do you mean ANZ? Or do you mean the two people at the table today?

Mr Elliott: I can't profess to speak on behalf of all people in the bank, but certainly myself and the people I know and trust in the bank, in my senior team.

CHAIR: That goes directly to the point about the profession of banking itself. The royal commission outlined a number of issues, some of which can be dealt with through legislation but a lot of it sits within the culture of organisations and making sure that people live up to the value statements that Dr Mulino from time goes on about—and quite rightly so—and asks about. To what extent is ANZ implementing a cultural change? How are those practices and that attempt at cultural change being practically measured and implemented throughout the bank?

Mr Elliott: When you look at large companies, ultimately the only source of competitive advantage you have is your culture. That is what defines you over long periods of time. Culture is undergoing constant change and revival. I think it has been events like the royal commission that really call that into question and make you go back and work harder at redefining what the culture is within ANZ and what needs to change.

CHAIR: What is the culture?

Mr Elliott: We've had a very strong sense of values about integrity, accountability, collaboration et cetera for some time, and we've worked to strengthen those through the royal commission. We learnt that we had lost our way—and this was a little bit before the royal commission—lost our sense of purpose. What's the company for? We're not here just for shareholders. We're not here just to make money. We have a broader purpose. We spent a couple of years working with our people—working with stakeholders, shareholders, NGOs, regulators and customers—to understand what is really the purpose of ANZ. The purpose of ANZ is to shape a world where communities and people thrive. Once we have that foundation and we have our values, then we're able to articulate the culture that enables that.

The culture we want at ANZ—and I'm not saying we're completely there yet—is a culture that is aspirational in doing the right things for customers, a culture that is always learning not only from its mistakes but also from the good things that it does and a culture that is empathetic. Those are the things that we build into our training programs and try to reinforce through our performance management programs. As I said, I would be naive if I were to tell you that we're there—we're not—but we're certainly making really good progress on those fronts.

CHAIR: This is the point: when you say 'good progress', what do you mean? Are there some benchmark performance standards, or is it just the vibe?

Mr Elliott: No, it's not just the vibe. Of course, things like culture are more difficult to measure; they don't lend themselves to simple metrics. We have to look at a range of different measures. We have some of the tried and true things. Like most companies, we look at our employee engagement: do our employees understand what our purpose is, and do they believe in it? At ANZ, we know that 92 per cent of our staff have said that they understand what our purpose is and that it influences their decisions every day. We look at the level of engagement our people have: do they believe that our products and services enable good customer outcomes? Those are some of the measures, and there's a lot of work done there; I'm sure we will get into it later.

We also undertake culture audits; we talked a little bit about this through the royal commission. Our audit team sit down with teams, observe their behaviours and look at the things that they do, interview people, run focus groups and, through a benchmarking basis, come to an assessment of that culture. We've had 20,000 of about 40,000 of our people go through that program over the last couple of years. Those reports get summarised, then get reviewed by management and then, ultimately, make their way to the board. There are a range of things we look at. None of them are perfect.

CHAIR: So it comes down to summaries of internal culture within the bank. You said you've done reports which assess, at least internally, attitudes around culture. Is the trajectory of improvement, stagnation or decline?

Mr Elliott: At the moment there is clearly an improvement trend. It's never as much as you would like; as I said, we're not where we need to be. But there's a very strong level of improvement that we have seen through the evidence we have presented to our board over the last two years.

CHAIR: On 1 July, the Australian Banking Association's new code was implemented. Can you give us an outline of how you're practically implementing that code within the bank?

Mr Elliott: The code is not entirely new. We've essentially done a root-and-branch review, pulled the code apart and looked at all the things we do to make sure we're in compliance. Some of those are very technical, for want of a better term: are our terms and conditions, the legal contracts we have, technically there? We've done that work. Some of it is to do with the tone of the bank: are we living to the spirit of the code? The way we're doing that is through having a number of conversations throughout the organisation, whether in a branch or in operational teams, so that people understand what their obligations are. I think that was part of the failing we saw in the royal commission: we had codes, but our people didn't really understand their obligations.

CHAIR: What are the reporting structures within the bank around the implementation of the code?

Mr Elliott: The code has a strong compliance channel to it, if you will. We have an obligation to do it; we are committed to it. That gets reported to our executive committee, to make sure we're on track, and to our board. It is no different than any other commitment we would make. We have to assure ourselves that we have met our obligations, and that we continue to do so.

CHAIR: That's reported to the ABA against its standards?

Mr Elliott: I would have to check whether we physically report to the ABA. We certainly do verbally. I'm not sure we write a particular report. I'd have to check.

CHAIR: It is one of the key recommendations of the royal commission—that implementing the updated code through the structure of the organisation, and then ultimately being judged against that publicly and against your peers, is a critical part—

Mr Elliott: I agree.

CHAIR: of ensuring its practical application.

Mr Elliott: I chair the ABA until the end of this year. Just given the timing, I'm not sure we've actually done a formal submission to the ABA in terms of progress. What we did agree through the ABA is that this is a binding code. If members cannot commit to signing up to the code, they cannot be a member of the ABA. But you're right: we have to go through that more formal checking process to make sure that is the case.

CHAIR: If that's the case, what's the time frame we can expect you to be doing so?

Mr Elliott: I'd have to take that on notice. I'm not sure. I'll check with the ABA.

CHAIR: I look forward to a report back on that. What's the total value of remediation now paid out by ANZ?

Mr Elliott: It's about $157 million.

CHAIR: What's the total allocation of funds that have been reserved—

Mr Elliott: We've taken a provision of around $1.6 billion. About $400 million is more to do with cost. That's the cost of getting the money back. The $1 billion to $1.2 billion is earmarked to ultimately go back to customers.

CHAIR: Just for clarity: what was the number already paid out?

Mr Elliott: $157 million.

CHAIR: So, essentially, around one-tenth. Is that correct?

Mr Elliott: A little bit more than that. About 15 per cent.

CHAIR: That's a modest—

Mr Elliott: It is modest. We've identified around 3.4 million accounts. Some customers may have more than one account, but there are 3.4 million accounts that need remediation. We then need to work through exactly how much money we need to return to a person, including interest, penalties et cetera, and then we have to go about actually locating the customer, because not all of them continue to be with us, because we have gone back in time and they may have moved on. We have to find them and then return the money to them. We had to put in a significant amount of investment up-front to build our databases to be able to do this. It can sound simple, but, to recreate the accounts for three million or four million customers takes a lot of time. Now we're in the process of

returning the money. The returning of money is speeding up and we're confident we're going to get much faster in returning that money to customers.

CHAIR: For clarity: if we were to see you in six months or thereabouts, there would be a significant improvement in the number of remediations that have taken place?

Mr Elliott: Yes. I can't remember the exact plan for six months, but we can come back to the committee. We have a target that says: 'As fast as we can go, what would that look like in terms of remediation?'

CHAIR: I'd appreciate an indication on that target.

Mr Elliott: Within that remediation, we've got something like 250 individual products or services that are being remediated. Our board do have oversight of those in terms of our progress—how far are we going in terms of fixing the problem, making sure it's not still being done and the problem is not persisting? That is important, as is getting money back to customers as quickly as we can.

CHAIR: In the context of more egregious issues that have resulted in class actions, how many class actions are ANZ currently facing?

Mr Elliott: In Australia, we are subject to two. Both of those have essentially reached an agreement between the parties and they're just waiting for a court agreement to that settlement.

CHAIR: Are any international?

Mr Elliott: Another five are not technically class actions. They would look like class actions from an Australian perspective.

CHAIR: Would or wouldn't?

Mr Elliott: They would look like it. It's just that not every regime has a class action model. Most Australians would look at those and say they look like class actions.

CHAIR: Which countries are they in?

Mr Elliott: They range. There's one in South Africa; there's one in the United States. They're in a range of countries. We can come back to you with a list.

CHAIR: You can come back. Take on notice details of each of them and summaries of each of them so that we have an understanding. Regarding money going in and money going out for suppliers, do you have the same terms for those you pay as for those you receive from?

Mr Elliott: Regarding the money that we pay to suppliers, we apply the 30-day rule. I think it's 99.6 per cent—

CHAIR: Thirty days from invoice?

Mr Elliott: Yes, from a tax invoice. The average will be much lower than that. I can get you the data on that. The only money we essentially receive is from the people who've borrowed money from us—credit card debt or others. They're not necessarily equivalent, but obviously we have interest-free terms and credit terms that are much longer than 30 days for those people.

CHAIR: Sure, but the main thing is: is there a situation where you're paying for services versus receiving services and payment terms are essentially the same? There's not a discrepancy that seeks to advantage the bank?

Mr Elliott: I see. I'm not aware of any. There might be. We can look. Where we pay for a service and we charge a customer for an identical service—

CHAIR: Or an equivalent?

Mr Elliott: There might be. It's not our business model. It's not something we typically do, but I'm happy to look.

CHAIR: It has been an issue that has raised been raised by a number of others not just in the context of banks but, since we have you here, it's important to understand. ANZ is comfortable describing itself in legal proceedings as a model litigant?

Mr Elliott: Yes.

CHAIR: That standard would apply to existing cases as well as those forthcoming?

Mr Elliott: Yes.

CHAIR: Another question I've asked of all the banks is: to the extent appropriate, has any analysis been done around duplication of superannuation accounts?

Mr Corbally: We offer a free tool to all members. They can use that tool to access the ATO SuperMatch service. That can be done either using the online channels or using a prefilled rollover form. Since we introduced that free tool in 2013 about 150,000 members have consolidated their super accounts. We also communicate quite regularly to members the benefits of super consolidation. We do that through quarterly newsletters and also through the annual member statement. I think the other thing to bear in mind is that in February this year the 'protecting your super' bill was passed. That requires all super trustees to transfer to the ATO either small or inactive superannuation accounts for consolidation.

CHAIR: I understand the ATO and its tool, but it's the extent to which the ANZ is an active agency beyond promoting that tool.

Mr Corbally: We encourage members. We write to them on a quarterly basis. We send it out as part of the annual statement and we have a free tool that allows them to search for superannuation balances.

CHAIR: Mr Elliott, going back to your introductory remarks—I fully appreciate the consequences of interest rate cuts and what that can do to the profitability of the bank and its operations—you said specifically that you have maintained your dividend for those Australians who rely on bank dividends for their livelihood. Is that sustainable year on year with interest rates where they are or if they were to go further down?

Mr Elliott: There's a lot of complexity in that question, because there are a number of factors that go into the profitability of the banks. What I can tell you is that, when the board makes its annual decision—and it was only just recently that we made our decision at the current dividend level and we reduced the franking ratio; just to be clear, we announced a consistent dividend of 80c per half but we lowered the franking from 100 per cent to 70 per cent—we take a lot of factors into account. One is consistency and some level of predictability. We know that many of our shareholders, particularly retail shareholders, like to have some confidence that that will be maintained in the future. The last thing they want is volatility—dividends or franking levels bouncing up and down. We take that into account and, to the extent possible, because there are lots of moving parts, we base it on our forecast. We generally look out three years when we do the planning, sometimes a little longer, and say, 'Is the board comfortable, that, all else being equal, this is a reasonable baseline for dividends to provide some level of predictability to our shareholders?' That's how we approach it. In that forecasting we take into account the risk that rates will be higher or lower or that the economic cycle may change. We've taken those things into account to the best of our ability, but of course there are no guarantees.

CHAIR: I don't think that quite answered my question. I understand the point that you thought it through, but do you believe that the capacity to continue to provide those dividends at a stable level is sustainable in light of the circumstances, even if interest rates didn't move?

Mr Elliott: The reason I'm being a bit cautious here is that it is a hypothetical question, and I have some obligations under the disclosure rules. It would be unwise of me to give guidance in terms of our dividend beyond what I said—that we understand the importance of predictability for shareholders and so we've taken those things into account in determining our dividend.

CHAIR: To what extent has the bank taken the somewhat simple but nonetheless incredibly important practical measure of testing the reality of negative interest rates into its IT systems?

Mr Elliott: We have taken some steps in that case. Banks have complex systems, so it's not quite as simple as it may otherwise sound. But we have done some—

CHAIR: That's why I'm asking.

Mr Elliott: Yes, I know. We've done some initial testing in both New Zealand and Australia to assure ourselves that, if we ended up having to offer negative interest rates on deposits, or if some of the bonds that we owned were negative yielding, our systems would cope. That work is ongoing. We have a high degree of confidence but not a perfect degree of confidence. I would imagine, based on my experience and looking at this, that we probably will have to make some changes to our systems. We will also need to look, for example, at terms and conditions. I don't know whether it's permitted under our terms and conditions of deposits to even have negative interest rates. I'd have to go and have a look. So I think there's quite a bit of work beyond just the technology.

CHAIR: And that work is being done?

Mr Elliott: Yes.

CHAIR: In preparation or just as a cautionary measure?

Mr Elliott: It's totally cautionary. I, personally, am not predicting that we'll end up with negative rates.

CHAIR: Neither am I.

Mr Elliott: I think it's an incredibly low probability, but it would be prudent for us to just be prepared.

Dr LEIGH: Mr Elliott, a number of victims of banking misconduct have provided letters to the secretariat which they've said the secretariat is at liberty to share. Would you undertake to have ANZ get back to those individuals and copy in the committee for matters relating to ANZ?

Mr Elliott: I'd be absolutely happy to do that, subject to the customers giving their permission.

Dr LEIGH: Thank you. Does ANZ impose a loyalty tax on its mortgage customers?

Mr Elliott: I don't accept the concept of a loyalty tax. What we do is we competitively price our products every day to offer the best price that we can for the service that we provide. Given the nature of our products, you'll no doubt be referring to the fact that there is a difference between what is known colloquially as the front book versus the back book—the pricing that we charge a new customer today versus a customer yesterday or previously. But we don't impose a tax. It is an outcome of a highly competitive, well-functioning market.

Dr LEIGH: ANZ's back book benefit, according to one analysis I've seen, is the highest of the major banks. Doesn't that suggest that ANZ's profiting off inertia—off your existing customers' failure to phone up and put in the hours necessary to ensure that they're getting the same good deal as new customers?

Mr Elliott: No. With respect, I think it probably points to poor analysis. It's not clear to me how it is possible to do that analysis based on publicly available information. What we know is that the gap between our front book and our back book depends on the nature of a product—whether it's an owner-occupier or whether it's interest-only. On average, it's less than 30 basis points. From what I've heard my peers and other commentators say, that sounds right in the ballpark of what the market is. Now, I accept that that's an average and I accept that there are differences. In some of our product bases, we know that that difference is less than 10 basis points, so it will depend on the exact nature of the product.

Dr LEIGH: But whether it's 30 basis points or 10 basis points, this is an unusual instance in which the same product is being sold at different prices to two different customers?

Mr Elliott: With respect, it's not the same product. A mortgage today is not the same as a mortgage tomorrow or a week ago. We price mortgages on the day based on the environment they're in, the cost of funds on that day, the risk environment on that day and the competitive environment on that day, so I'm not sure that they are equivalent products.

Dr LEIGH: NAB told us this morning that they'd, over the last 12 months, phoned all of their customers and offered them a review. Has ANZ done the same?

Mr Elliott: Not in that broad sense. I'm not quite sure what they're referring to in terms of what a review would mean. We do contact customers. We contact customers when we see persistent debt levels or when we think they have the wrong product—perhaps they have a credit card and they would be better off with a personal loan. We do contact customers when we see they may have better use of their money, rather than an at-call account putting it on term. So we do contact customers. Have we contacted all six million customers at ANZ to offer a review? No.

Dr LEIGH: Have you conducted any analysis to systematically see the characteristics of your customers who are calling up and asking for a better deal compared to those who don't?

I'm thinking in particular as to whether those customers who are asking for a review might tend to be more advantaged in some dimension—higher income, more affluent neighbourhoods—and, if that were true, it would therefore mean that the loyalty tax is falling most heavily on your most vulnerable customers.

Mr Elliott: All of our products are available for customers, old and new. Again, if we have a standard variable-rate product today and we put out a special—and we do that many times—that is not just available to new customers. If an existing customer wants to refinance they're able to. So there are very few restrictions.

In terms of your question: first of all, I'd say that the number of people who are availing themselves of that—of calling and asking for a review, to use your language, or asking if they can get a better rate—has been increasing. That's largely to do, I think, with awareness of the fact that that's an available option. I think that's a good thing. It's risen quite substantially over that time. I am happy to go and check it, but I'm not aware that we've done any sort of demographic or behavioural analysis to identify what characteristics those people share, no. But I imagine we could.

Dr LEIGH: Given what I know about behavioural economics, I'm anticipating that those who are most likely to be sticky and less likely to take the time to call may well be some of the most vulnerable customers. Would it trouble you if that were the case?

Mr Elliott: That would trouble me. On a slightly different case: we have had quite a bit of work done on why customers choose certain banks, or certain products or services. That's not for switching, necessarily. Actually, that research—and, again, not just done by us but done by others—would suggest that it's not a demographic case, that there are inherent personal traits. There are some people who value service and stability, and who look to the entire range of services that they get from banks. For example, one of the most important things that Australians consider when choosing a bank is safety. I don't mean that in terms of prudential safety—will the bank go bust?—but in terms of fraud: 'Is this a bank that I can trust from a cyber perspective? Is this a bank I can trust with my data?' That's very, very important.

So there are some behavioural aspects, but, as I said, I am happy to go and look at whether there are any demographic indicators that suggest that, because that would trouble me if that were the case.

Dr LEIGH: I would be grateful if you could share that analysis with the committee. An article written by your chair earlier this year—in August—said that ANZ had a range of problems within the bank. It pointed to tribalism within teams, a propensity to look for short-term fixes, a lack of accountability and a tendency of the bank to sit on its hands. It also said that the board had been too slow to challenge management. And yet, unlike CBA, NAB and Westpac, the self-assessment has not been released publicly, as I understand it. Why is that?

Mr Elliott: First of all, just on the facts. I think there were 37 self-assessments requested by APRA. I think that maybe two or three of them—

Mr Corbally: Three.

Mr Elliott: Three have been public. At the CBA, one was mandated to be public. The way that was positioned to us when APRA first asked for it was that it was a confidential review. We took a decision that in order to ensure it was as frank and honest as possible that we should conduct it in just such a way and maintain its confidentiality. If we were writing it considering that it may end up finding its way into a newspaper, that may restrict people's openness or use of language. That was the view that we took.

The article that you're referring to was the attempt by our board to say, 'Look, while we're not going to publish the document, we want to give you a sense and flavour of what's in it.' From my perspective, and I think that Kevin would agree, the chairman was very able to cover all material issues in that self-assessment. They were very well covered in that note that he wrote.

Dr LEIGH: So what wasn't in it? Can you give us a sense—obviously without going into the specific details—of the gap between what was provided to APRA and what was provided to the general public?

Mr Elliott: From a tonal perspective, or a thematic one, I don't think there is a difference. I think it's really at the level of detail and materiality.

Dr LEIGH: Going to which aspects of the business?

Mr Elliott: For all of those issues that Mr Gonski referred to, the report that we gave to APRA probably would have had more detail, more examples and more data to back up some of those factors. But the essence of it is no different.

Dr LEIGH: I'll come back to that later. I want to ask you some questions about the sale of the OnePath superannuation business to IOOF. Do you believe that was in the best interests of those superannuation fund members?

Mr Elliott: The process here is that the trustees of those funds have to make that decision, which they have. They took a significant amount of time. They're very aware of their obligations. They made a determination that it was in the best interests of their members. Our board—

Dr LEIGH: But you're the parent bank. Surely you have an obligation to ensure that those trustees boards are meeting their duty?

Mr Elliott: I was going to get to that. Yes, you're absolutely right. But, legally, the trustees have to make that determination first, and then our board has a look at that, to ensure that they have followed due process and that it was a reasonable decision for them to make, and then endorse that, and that is what we've done. And it is now with APRA for final approval.

Dr LEIGH: Did the fact that there were a number of IOOF misconduct issues identified by the royal commission concern you?

Mr Elliott: Yes.

Dr LEIGH: Did it make you think twice about the sale?

Mr Elliott: Yes.

Dr LEIGH: What steps did you go through to satisfy yourself that the sale was ultimately worth pursuing?

Mr Elliott: Well, the transaction essentially got lengthened. I'm trying to remember—the original transaction was actually announced in 2017. So that was pre the royal commission and those findings. Of course they caused us pause. We increased the level of diligence. We asked more questions. We sought more assurance from IOOF that they were able to meet their obligations. And so the process took a lot longer, absolutely. But we were able to, through that process and through their own learning and commitment to change, give ourselves—and I am being broad here with 'ourselves'; so, the trustees and the bank were given—comfort that it was maintained to be in the best interest of the fund holders.

Dr LEIGH: One of the key issues in the sale is the warranty cap, allowing IOOF to revert back to ANZ if misconduct issues are later discovered. Why is it in the interests of members to have a warranty cap at all? Wouldn't it provide more certainty for members if that warranty cap didn't exist? Secondly, why was the warranty cap recently reduced, leading to a commensurate fall in the sale price?

Mr Elliott: The warranty cap is a normal part of any M&A transaction. Essentially, what we need to do is to ensure that, at some point, there is a final transfer of the business and its obligations to the new owners. So you need to be able to draw a line in the sand and say, 'What are we liable for? What are you liable for? Who's going to fix what?' That's all that that is about. So it's really, legally, contractually, articulating who is accountable for what. And what's normal in that is: part of the transfer of value—so, the sale price—is just part of that negotiation to agree. It's part of that 'who's doing what'. We agree the level of indemnity. So it's not unusual. It's not unique, certainly, to the superannuation et cetera. I'm not sure that it has, really, any impact on the members at all, because both parties are able to fulfil their obligations. We're both regulated entities. We are both sound, et cetera. So we have the capacity to meet those obligations in terms of remediation.

Dr LEIGH: I think most people would regard IOOF as having less capacity to cover catastrophic losses than ANZ. I can see why a lower warranty cap is in the interests of your shareholders. I'm just wondering why you believe it's in the interests of OnePath members.

Mr Elliott: We're not talking about a catastrophic loss. We're talking here essentially—I accept there's some level of unknown about the potential remediation, although it is possible to calculate, with some level of confidence, what the potential losses of those things are. Again, that will have been—and I'd have to go and check exactly—part of the consideration of the decision by the trustees and the bank.

Dr LEIGH: To what extent is ANZ staying in the financial planning business?

Mr Elliott: In a very small way today. We will have, I think, less than 200—I might be wrong; it may be a little bit more than that—ANZ salaried financial planners. That will be the extent of our business and financial planning.

Dr LEIGH: Why have you decided to keep that business?

Mr Elliott: Because, actually, financial planning is a valuable service for many members of the community. It has many challenges to it, frankly, in terms of operating it safely and soundly, but it's actually a good thing. Many people should have a financial plan, and I think going to your bank and expecting the bank to be able to help you get one is a reasonable expectation. There are different models for us to do that. We can do it because we have our own people. We can do it in partnership with somebody else. We're still exploring those because each has a different risk profile. It's small. It's very targeted. We think it's the right thing to do for now. But, as I said, that world, from a regulatory point of view, from a reputational point of view and frankly from a business model point of view, is very challenged, so I imagine that that will continue to be reviewed in the future.

Dr LEIGH: Do you imagine fully divesting yourself of that part of the business at some stage in the future?

Mr Elliott: I imagine lots of things. I can imagine that that may well be an outcome. I think it would be an unfortunate outcome for the broader community. It wouldn't have a material impact on ANZ, but it may well be one of the options that we consider in the future.

Dr LEIGH: One question I should have asked you before is, in the event that APRA were to block the sale of OnePath to IOOF, would you pursue the sale of OnePath to another buyer or hold on to the business?

Mr Elliott: That is a hypothetical question. I don't know. We are confident that it will be approved. There are a range of options that the board and the trustees would have to consider, and we'd have to go through all those considerations of what's in the best interests of members and what's the best way of achieving those ambitions.

Dr LEIGH: Is your inclination though that OnePath's best future lies outside ANZ in the long term?

Mr Elliott: Yes.

Dr LEIGH: Looking at the issue of activist pressure, what's your view about groups that target businesses or firms that provide goods and services to firms they don't like?

Mr Elliott: I'm used to it. It is just a fact of life. I don't get too upset about it, to be perfectly honest.

Dr LEIGH: What role do you think environmental activism plays in Australian corporate life?

Mr Elliott: They raise awareness of an issue. They cause boards and management to consider issues that they might not otherwise. I think it's really just a cause for debate.

Dr LEIGH: How does ANZ think about climate change?

Mr Elliott: We think about climate change a lot. We've been in business since 1835. We started in the ag business as a bank. The weather is pretty important. You could argue that we've been in the climate change business since then. What we know through that is that cycles change and weather patterns change et cetera. It's our job to work with customers. What we know through those cycles is that many customers do well and thrive and innovate and continue to think ahead and change. Our job is to work with those customers and help them through some of that thinking. It's sort of core to what we do. It's not just for farming customers; it has broader implications across the broader economy. It is a key part of being a bank today. That would be my view.

Dr LEIGH: To the extent that climate change increases volatility, do you see that as being a business risk?

Mr Elliott: Yes, absolutely.

Dr LEIGH: In what sectors?

Mr Elliott: As I said, putting aside the word 'climate change', the climate, or any of those things, fundamentally changes the viability of some of our customers—where they live, what they do, how they're employed, how they generate wealth et cetera. As I said, many of those things are manageable, given the right time, given the right infrastructure, given the right tolerance from people like banks and others, and our job is to try to understand what those risks are. In some cases it's pricing for that risk. It's our job to make sure that our shareholders' capital is getting a decent return and to also help our customers think through what they need to do to thrive in that future world, whatever that environment might be. But that's no different to any other environmental factor we look at.

Dr LEIGH: What does that mean?

Mr Elliott: We might look at regulatory risk. That's a risk that's in a fast changing environment as well. So we also have to take those things into account.

Dr LEIGH: What does that mean for your portfolio of fossil fuel investments in the long term?

Mr Elliott: We believe that there is a transition happening. We can debate endlessly about the timing of that, but we believe it is inevitable. That has an impact on our risk profiling of certain sectors, certain fossil fuels, certain renewables—all of those things—and certain customers and also customers that are dependent on those parts of the industry. So, over time, we adjust our risk appetite and work with those customers. For example, we now work with our top 100 emitting customers, which are generally large industrial companies, to understand how they think about it. What are their transition plans? Do they have one? Do we think it's a reasonable risk mitigant to what they're doing? There's a lot of things we take into account, and it's an increasing issue for the banks. Our total fossil fuel exposure is less than one per cent of our balance sheet, about 0.8 per cent. What you've seen there has been a shift. At the moment, it's much more likely to be gas, which we see as a critical transitional fuel, and then we have a very significant exposure to the renewable sector as well.

Dr LEIGH: My understanding is that, unlike some other banks, your exposure to fossil fuel investments increased nine per cent last year. Is that correct?

Mr Elliott: What was your percentage?

Dr LEIGH: It was nine per cent.

Mr Elliott: I'm not sure it was nine per cent. Our exposure to fossil fuels has actually come down over four or five years, particularly in the thermal coal area but, in general, it's down over that time. It's never going to be a straight line. There are little moves around, partly because our businesses are also, unlike many of our peers, much more global businesses. Much of that exposure is not in Australia, so those things move around because of foreign exchange. The mere fact the Australian dollar is lower today has meant that, in Australian dollar terms, our exposure will have gone up. There's a number of factors in there. It is not our intention. We don't have a strategy to go and aggressively grow fossil fuels. We're not trying to shrink them either. But it's not what we're trying to achieve.

Mr Corbally: Our exposure to the resources sector has gone up, principally in oil and gas, also in the renewable space. And our thermal coal exposure is pretty much the same as what it was last year.

Dr LEIGH: I think you may get to enjoy staying on the same theme now.

Mr CRAIG KELLY: You mentioned areas affected by bushfires, that you would have a suspension in the default interest payments?

Mr Elliott: We have a relief package for customers that are affected by that.

Mr CRAIG KELLY: Could you expand on that a little, please?

Mr Elliott: Do you know the details of the relief package today?

Mr Corbally: I don't know all the details but there are repayment holiday periods. It is the same with credit cards, home loans and the like, but we can get the details.

Mr Elliott: It would be no different to what we've done before with the drought. So basically, what we say to people is: 'If you're having tough times, you don't have to pay your credit card off. We'll give you relief on those things.' It is usually a package of things, rather than just one, but I would be happy to provide details.

Mr CRAIG KELLY: What's the step? What's the qualification for that? Is it someone who has lost their home, is in a drought or their business is affected?

Mr Elliott: That's a good question, actually. This is a generic answer. We would generally get a geographic location and say that is a drought-affected or a fire-affected area. If any of our customers in there are impacted such as their house has house burnt down, their business is under pressure—it doesn't matter what it is—or their car is affected, we will offer them assistance. That is appropriate. It's not only homeowners or only small business, we're open minded to what that might be.

Mr CRAIG KELLY: So if one of your customers came to you and said, 'I'm in an area that's been affected by fire. I've had damage to my house and my business and my work. Can I have some holiday on repayments of my mortgage? Can I not be charged the default interest?'

Mr Elliott: Yes, that's what we're talking about.

Mr CRAIG KELLY: And that's something the banks could help with?

Mr Elliott: Absolutely.

Mr CRAIG KELLY: When it comes to the default interest, how much would that actually cost the bank?

Mr Elliott: It's probably too early to tell, to be honest. I can't imagine it's a huge amount of money. But more importantly than the default interest, while I am saying we won't charge you the default interest, we may not require you to pay any interest. Generally what we would do is just say, 'There's a moratorium. I know you have a mortgage with us. I know you are small business financing; you don't have to pay anything for a period of time. At some point, when we've agreed that the crisis is over or you're back on your feet, we'll talk about what that means then.' The reason I can't put a number on it is they're all different. Some people don't need that. Some people just need a few weeks break, some people debt need relief and some people need interest relief, so it really depends. The important thing here is we listen to our customers; it's not rules-driven. We try to do the right thing to give them time to get back on their feet. It's in their interest, it's the right thing to do and, frankly, it's in our interest as well.

Mr CRAIG KELLY: Is that something you have in the contract? If an area's affected by drought, or a disaster occurs—

Mr Elliott: No. It's not a contractual obligation. You could argue that it could be. It would possibly be incredibly difficult to draft, and it could get a bit legalistic. I think the more important thing is that we just do the right thing.

Mr CRAIG KELLY: Yes, but then it depends—if a customer is in a disaster area, they're still relying on the banks to 'do the right thing', which, it has been shown, they haven't done in the past. Why wouldn't something like that be considered for putting in a contractual term, if an area is affected by a flood or a disaster area—that there is some structure in the contract so that the borrower at least has some level of confidence and perhaps you, as the bank, also know where you stand on these things?

Mr Corbally: Obviously we can take that as a suggestion, but if I look at something like the drought that is occurring in Australia at the moment, we provided a drought package and flood packages when the floods occurred in northern Queensland, and we ended up helping in the order of 3½ thousand customers. We provided about $200 million in facilities to them to restock. It could be, alternatively, new investment, or just to get through to the next season. So, we do that, and that is something that we proactively contact our customers about

ourselves. I was in New South Wales and in Queensland over the course of the last number of months. I met a whole range of customers, particularly those who had been impacted by the situation in both those states, from the drought. Also when I was in Queensland I met a customer whose son had a farm in Julia Creek, west of Townsville. In that particular case, within 24 hours of the flood going through at Julia Creek we'd contacted that farmer to say to him, 'Here's an additional amount of money that would allow you to go and restock.' And that allowed him to restock. The flood had come through, the rains had come in, but he had lost a substantial number of cattle. So, we proactively do that.

Mr CRAIG KELLY: Okay. We'll give the banks credit where credit's due on that. But that is the high-profile event that's in the public's sphere of interest. Often there are probably smaller events that happen that don't get any media attention. If you're doing that at the moment, why not put something like that in your contractual terms?

Mr Elliott: I think there would be unintended consequences. Again, I'm happy to go and look at it. It may well be a good idea. But I think the unintended consequence may well be that we end up having a 50-page document defining every possible event that may happen. It could be your car, the scooter, the boat—and we'll end up having legal arguments with customers, which we know take time. And that would be a really bad thing. But I understand. I think we can do perhaps a better job of making clear the circumstances under which we'd do these things and when we wouldn't.

Mr CRAIG KELLY: Yes, even if it was just a provision that said that in the event of a natural disaster the bank will show good will, or something simple like that.

Mr Elliott: Sure. I understand the principle, and it may well be something that's more appropriate for the Code of Banking Practice. But I hear you. And I take the point that these are very high-profile things, and in many ways it's easy for a bank to be honest. So, we're doing the right thing.

Mr CRAIG KELLY: That's right. It has a high profile. It's in the media. It's on television. Everyone jumps up and puts their hand up to help. But in the smaller circumstances that don't get the media attention, often these people tend to—

Mr Elliott: But, like other banks, we do have a general hardship program. So, any customer, no matter where you live, if you're doing it tough and you can't get by, you can call ANZ—and I know the other banks do the same—and we will agree the same things. We will sit down and say, look, there'll be a moratorium, or we can reduce rates, or put you onto a different product or forgive the debt or whatever it might be. We absolutely do that. And we have a lot of people who, sadly, avail themselves of that service.

Mr CRAIG KELLY: Earlier this month there was an article published in the *Australian Financial Review that* said:

ANZ said it had made provisions of $1.6 billion for refunds over the past three years, however it has only returned $100 million to customers so far.

Are those numbers correct?

Mr Elliott: Well, those are the numbers Mr Leigh was referring to, and now the number's $157 million. The provision is the same; it hasn't changed since then. And we are returning the funds as quickly as we can.

Mr CRAIG KELLY: So, in reality you're 10 per cent down and still 90 per cent to go?

Mr Elliott: No. Of the $1.6 billion, $400 million or $500 million is just the money we have to spend to figure it all out. So the actual money that is going back to customers is more like $1.1 billion. Of that, it is $157 million, so it is 15 or 16 per cent.

Mr CRAIG KELLY: So we are still 80-plus per cent?

Mr Elliott: I agree. We need to get this money back as quickly as possible. At the time the article was written it was $100 million. And here we are, two months later, and it is $157 million. So it is accelerating—because we've built all the infrastructure that allows us to do it. Many people might be sitting there saying, 'How can it take so long?' I'm not whining about it, but we have to go back to 3½ million accounts and recreate 10 years history of those accounts and recalculate if we charged them too much, too little or whatever, and put it right. And then of course we have to find those people—and that's not always as easy as it sounds. So that's what we're doing, and we doing it as quickly as we can.

Mr CRAIG KELLY: If we were to meet here in 12 months time—so you are at 10 per cent now, so you'd have 90 per cent to go—where do you anticipate you would be?

Mr Elliott: I don't have the number off the top of my head. We have a plan. It won't be perfect, but I'm happy to share that plan on what that will be. It will not be finished by then. The sad reality is that some of it—not all—is incredibly complicated. But we do it as quickly as we can and I'm happy to share our plans with the committee.

Mr CRAIG KELLY: Would you expect to be 50 per cent of the way through?

Mr Elliott: I can't remember off the top of my head what the plan was in one years time, but it is substantial.

Mr CRAIG KELLY: Maybe you could come back to us with a number and in 12 months time we can benchmark you to see how you are going against that particular number.

Mr Elliott: Not a problem.

Mr CRAIG KELLY: Do you have that $1.6 billion under different categories?

Mr Elliott: Yes. Some of its to do with our Wealth Division, but a substantial amount of it is to do with the bank. Within the bank, something like 250 individual remediations are underway. It might be a fee on a credit card. It could be something to do with an offset account. It might be a small business package. There are 247 issues being remediated. Sadly, we are still finding new things to remediate. But that is a good thing; we are looking for and finding problems to add to that list. And each of them has a different profile. Most of them have a relatively small impact and a relatively small number of customers—2,000 or 5,000 customers. Many of them, a few high-profile ones, are a lot. When you add all that up, that's where you get the $1.6 billion from.

Mr CRAIG KELLY: The new Financial Complaints Authority—how many cases do you have there?

Mr Corbally: We have 1,095 outstanding at the moment.

Mr CRAIG KELLY: Is any of that $1.6 billion related to those 1,000 cases?

Mr Elliott: No.

Mr CRAIG KELLY: They are separate?

Mr Elliott: Yes.

Mr CRAIG KELLY: Do you have a provision for those 1,000 cases?

Mr Elliott: No, we won't have a provision for those because, as a general observation, many of those cases, when you add them up—given the size of the bank, we have general provisions that will cover those. We don't have a specific provision like we do for the remediations, so the numbers are likely to be much smaller.

Mr CRAIG KELLY: Do you benchmark the number of cases finalised each month?

Mr Elliott: Yes.

Mr CRAIG KELLY: Can you tell us what that is?

Mr Elliott: I don't know if we have that. What I know is that we need to get a lot better at it. We benchmark how many of our customers complain at all. A complaint can be anything from 'I didn't get my frequent flyer points this month' to very serious things.

Mr CRAIG KELLY: But to get to the financial tribunal stage it would have to be more significant than just 'I didn't get my frequent flyer points'?

Mr Elliott: You'd be surprised. What happens is that they come to us and we try our best to fix it. We say to the customer 'This is what we think. Yes, you're right and we're going to give you compensation,' or 'We don't think we've done anything wrong here. If you're not happy with that, here the contact number for AFCA and we encourage you to go to them.' So all sorts of things go to AFCA. What we know is that we get too many complaints—so we are fixing up what we do—and too many of them end up going to AFCA. We should be able to fix our problems with our customers. We do benchmark against our peer group; AFCA publish that data. More important than that, though—because it is hard to always benchmark—is how many of those cases at AFCA get resolved with the customer satisfied. That's where we need to do a better job. We've got a major review going on at ANZ around the whole complaints infrastructure—from the most basic ones to the very complex ones, including AFCA. How do we deal with those and how can we do a better job?

Mr CRAIG KELLY: Moving on to the recent interest rate cuts, have you seen any response from your small and medium sized business customers? Are they coming in saying, 'You beauty, interest rates are down. Advance me more money'?

Mr Elliott: I don't think that's the outcome. What's happening is that, as a result of the rate cuts, we have passed on rate cuts to home loan customers and some in the business sector as well, generally. Ninety three per cent of our home loan customers have elected not to put that money in their pockets; they have elected to just pay down the debt faster. So they have kept their payments the same and paid off principal.

CHAIR: The word 'elect' is I think probably suspect. What has actually happened is that they have taken no action, which is different from 'elected'. Seven per cent of people have elected to take action to reduce their repayment.

Mr Elliott: First of all, we as a bank think it is the responsible thing to do—that people pay down their debts. Funny enough, that hurts our profit. The bank makes much more profit if people don't pay down their debt. But we think it is the right thing to do. So what we do is default to that. If you've got a mortgage at ANZ and rates go down, the default is that your repayments stay the same. We write to you and we make it really clear that you can change. By the way, it is really easy. You can change your payments in 15 seconds online. It is not difficult at all. What's interesting is that Australians have shown an increasing propensity over time to pay down debt. That's always been the case. We've had rates falling for a long time. That is increasing.

Mr CRAIG KELLY: That increasing propensity to pay down debt would negate any stimulatory effect of an interest rate cut?

Mr Elliott: Yes. It does not mean people are out spending more. The reason I was raising that is that the result, sadly, is that the impact on many small businesses—it depends what sector there in—is that they are not getting spending in the shops or in their businesses.

Mr CRAIG KELLY: The reality is we've had a rate cut. You're not getting more business customers coming in wanting to borrow more money. The majority of your home loan customers are not having more money in their pocket and going out and spending. But I imagine you would also have a segment of customers that are living off their savings that are now tightening the belt.

Mr Elliott: That's 100 per cent correct. That is exactly what's happening. Depositors obviously don't get a choice.

Mr CRAIG KELLY: Are you saying the rate cuts that we're having are not stimulating the economy? They could actually have a negative effect?

Mr Elliott: That is probably a question for the Reserve Bank. They would have much better data than me. I can only talk about the ANZ experience. At ANZ, if I do the maths—and you have to remember that there are many, many more home loan borrowers in terms of balances, so the numbers aren't the same—I think that is a very real risk. And a few people have commented on the risk—that that is happening at the moment—that is true.

You raised a question about demand. Let's look at a small business customers who want to borrow less than $1 million—your average sole traders and those sorts of people. There has been a reduction in demand. A year ago, and over the previous few years, ANZ would normally get somewhere between 4,000 and 5,000 applications for a loan every month and we would approve 80 per cent of them. Today, the number of applications is half of that. We are now at 2½ thousand a month.

Mr CRAIG KELLY: At the lower interest rate?

Mr Elliott: At the lower interest rate. We are still approving 80 per cent, so the approval rates haven't really changed. It is just that there are fewer people coming in. Maybe they don't like ANZ; I don't know; I hope that's not the case. But I think the data would show that there has been a slowdown in demand from small business. That is a generic comment. There will be some sectors where it has gone up, but that's what we've experienced.

Mr CRAIG KELLY: There are various factors affecting that.

Mr Elliott: Absolutely.

Mr CRAIG KELLY: The real question is: what is the effect of lowering interest rates? The traditional idea is that it stimulates the economy. Is that still a valid case today? You are saying there is a big 'if'.

Mr Elliott: I think there is more question to it as rates have got so low. People are behaving in a very different way than you would have traditionally thought, yes.

Mr CRAIG KELLY: In response to one of Dr Leigh's questions, you mentioned that your total exposure of loans is about one per cent to fossil fuel industries but a considerable percentage to renewables. Do you know what the number is for the renewable sector?

Mr Elliott: It's about 1½, isn't it?

Mr Corbally: Renewables is definitely less than the total to fossil fuels.

Mr Elliott: I'll come back to you on the numbers.

Mr CRAIG KELLY: What if a future government decided that they would ban or prohibit all fossil fuel exports? I did a rough sum: it's about $120 billion worth of exports. If that happened, how many of your customers could potentially be affected by that through related industries?

Mr Elliott: With respect, that's a very hypothetical question. It would depend on the timing and how quickly that was announced. At an extreme, if it were very fast, I would say that would have a massive impact, and not

just on the fossil fuel industry. That would just go straight through the economy incredibly fast. That would be a massive impact.

Mr CRAIG KELLY: A large section of your customers would be exposed to such—

Mr Elliott: Massive.

Mr CRAIG KELLY: Are you getting complaints from what I'd describe as noisy advocacy groups demanding that you not provide—

CHAIR: The noisy Australians.

Mr CRAIG KELLY: Are they asking you not to provide services to third parties—in fact, effectively asking you to engage in secondary boycotts?

Mr Elliott: Yes. Some of those complaints come through a traditional channel. They call up and they're a customer, and they can make that complaint. We're also subject to what I would call email or postcard spam where certain organisations encourage their members to send mail to us, either electronically or physically, demanding A, B or C. Yes, we do get that.

Mr CRAIG KELLY: Do they make threats that they will withdraw their use of ANZ services or move their accounts elsewhere?

Mr Elliott: Yes, sometimes.

Mr CRAIG KELLY: What's the bank's response been to that?

Mr Elliott: We generally go back to all of them. We respond to every single one of them and explain our position with respect to whatever the issue that they're complaining about is. We show them our policies around the fossil fuel industry, or any other sensitive sector, for that matter. So we have it well managed, and that's what we do. We respond to every single one.

Mr CRAIG KELLY: You respond to them by writing them a polite letter.

Mr Elliott: Yes.

Mr CRAIG KELLY: But you're not, at the board level, making any decisions to engage in a secondary boycott?

Mr Elliott: No, not from those things. Some of those things are just not founded on fact, so we just correct people and explain exactly what we do and how we consider some of those things. I don't believe that those campaigns have had a direct impact on board decisions. There are other stakeholders who have opinions: ESG groups and NGOs who might come to an AGM and other things. Of course, if they're a shareholder, they have a valid voice, and they would be considered by the board in determining our policies to do with those sectors, yes.

Mr CRAIG KELLY: Just one final question: is there any sector of the Australian economy that's engaging in lawful activity that the bank has ruled a line for? Do you just look at all applications on their merits and weigh up the risks of whatever?

Mr Elliott: There's only one. It's not in the fossil fuel or resources sector. It's just one.

Mr CRAIG KELLY: Which is?

Mr Elliott: It's the tobacco industry. Just to be clear, it's tobacco manufacture—not the sale but the manufacture.

Dr MULINO: Thanks for attending. I want to start with a couple of additional questions on remediation. I just want to drill down a little bit on the outstanding 85 per cent of money that you're working through now. A lot of that was related to wealth, I think you indicated. Would examples of that be cases of non-provision of advice that was paid for?

Mr Elliott: The fee for no service? First of all, the vast bulk of that is actually banking remediation. Unlike some of our peers, we have a slightly different mix of business. Some of it is wealth. When we're talking about fee for no service, that was provided by an ANZ salaried financial planner. We're finished. That's done. All that money has gone back. Essentially, there is a tiny little tail of people who we can't find, but that is essentially done. So we've done that.

We did make a provision for fee for no service that would have been provided through our aligned dealer group. That aligned dealer group has been sold to IOOF. That does not require any approvals, that's been done. But, going back to Dr Leigh's question, we have some liability for previous remediations and we have made a provision for that. I can't remember the number specifically. I think it's a couple of hundred million dollars, and that's in that number. We're working through that.

Dr MULINO: Just to clarify, though, what are the typical case types? And what are some of the evidential challenges that you're working through which are leading to delays?

Mr Elliott: In wealth?

Dr MULINO: Yes.

Mr Elliott: The wealth one is a good question. Essentially, the problem here with the fee for no service and the aligned dealer group is compounded because of the aligned dealers. The aligned dealers are essentially small businesses that operate under our license, but they're independent businesses. Each of them has a separate contract under the rules in which they operate, so we can't just mandate certain things; we have to work with them. That makes it a little bit harder to do. We'll do it; we'll get there and they'll do the right thing.

When you're talking about fee for no service, the complexity there is that it was an advice business. Obviously, an advice is subjective. You have to go back and look at a customer's file over 10 years, and much of that will be paper based. It's literally getting boxes of papers out, going through all of those, looking at that advice and then saying, in hindsight: 'Was that quality advice given for the service? Was it given at all?' It's any of those things. So it takes time to reconstruct and then say, 'If the advice had been given to the right standard, what would the financial outcome have been for that customer?' So there is just a lot of complexity there; you have to wade through it. It's not something you can throw into a computer; it requires manual intervention. So that's that one.

Dr MULINO: On that one: you're actually then running a counterfactual—

Mr Elliott: Essentially.

Dr MULINO: and comparing outcomes?

Mr Elliott: Essentially. We have some protocols which we agreed with ASIC for how to do that and what they would look like. On the bank ones: traditionally, they're more mechanical. I don't mean to demean them, but they are generally to do with us having a package of products which were supposed to behave in a certain way in terms of the way that interest was calculated, and the interest was calculated incorrectly. So we overcharged. The amounts are not necessarily large but they can compound over time. Those are easier to do; they don't necessarily require manual intervention, but we still have to build the algorithm to go back and recreate Kevin's account, do the counterfactual and figure out what the difference is if it had been right et cetera. That's why we will get much faster at those ones. We've had to build all that capability. That's why, when we first started 18 months ago, our remediation team was 120 people and now it's over a thousand. So we're continuing to invest in those capabilities.

Dr MULINO: One of the reasons it's of interest to me, at least, to drill down a bit into some of the evidential challenges is that I think there's a clear asymmetry in terms of the degree to which delay impacts on the two parties in these cases. As you said, and I acknowledge that, delay causes you costs. You've got a lot of people working on these cases and you have interest costs. But in most cases—in all cases, probably—where you're dealing with an individual or a small business, long delays and uncertainty will create a lot more harm to them. For me, one of the pieces of context is that it's important for the bank, as a model litigant in the more holistic sense, to try to do everything it can to resolve these cases as quickly as possible, acknowledging that you do have some incentives to do that. But, given that asymmetry, it's particularly important.

Mr Elliott: Can I just challenge that a little, Dr Mulino? I understand that, but for these ones we've taken the charge. I have no benefit in delaying this: my shareholders have already paid the $1.6 billion. It's gone from their accounts; it's gone. When we take that provision we've expensed it, so there is no benefit in delay. Now, actually, there is a benefit in speed, because the delay actually costs money. The longer we take the more the accrued interest keeps mounting up and I have to pay more and more. The challenge you're referring to, of discovering the issue, is a fair one. We need to discover these issues as quickly as possible. I agree with you that there might be a perverse incentive to not discover issues, if that makes sense, but, once we've discovered them, we have a legal obligation to provide and expense the money. As far as we're concerned, we've spent the $1.6 billion, so, the sooner we get that money back to customers, the better. I also think, strategically—and we've been on the record saying this—not only is it the right thing to do; it is actually in our interest, because, the sooner we get this right, the sooner we're able to put those thousand people to work doing better things for customers and the sooner we're able to get back to doing what we're supposed to be doing, which is helping customers achieve their ambitions of homeownership, running small businesses et cetera.

Dr MULINO: To put a slightly different perspective on it, I think your organisation makes some judgement calls at the margin, as all the organisations are making—for example, how many staff you put on this task. Also, in individual cases, where there's a grey area, as a model litigant you will make calls like erring on the side of resolving something and saying, 'We'll pay out.' They're judgement calls to some degree, which you make

systemically. You're not going to want to set too many precedents that you're just going to pay out systemically. My sense is that you make number of judgement calls which will have an impact on the quantum and the speed.

Mr Elliott: I understand that. I'd love to be able to show you in real life, and I'm happy for you to come and see how we do that. I can only assure you that our board is very clear about our number one priority, which is to get that remediation finished and that money back. It is in writing. It is very clear. We had a meeting just this week. We're under no illusions about that. When you look at our team, the structure, the incentives we've given them and what we've told them is important, it is very clear that we want to finish those and find any other problems we have. We have a proactive program where we are searching through every single product and process we have to see whether there's anything that needs remediating, big or small. We add it to the list and get it done as fast as possible. That team has no restriction on the number of people they need to hire—none. They can hire as many people as they want. They have no budget restriction. The binding constraint, if you will, is not money or headcount; it's expertise. These things inevitably sound simple, but you need people who actually know what they're doing, so they do have to have either some high degree of banking expertise or, more and more, technology expertise, because they have to unravel these problems and solve them. There is no restriction there.

Dr MULINO: To finish this theme: what is the headcount of people involved in the process?

Mr Elliott: There are about 1,100 today. Those 1,100, though, would be people you can point to and they would tell you, 'My job is remediation; that's what I do.' In addition to that there are probably another 600 or 700 full-time equivalent people who have a day job and are helping out on remediation as well. If we added up the full-time equivalent, it's probably closer to 1,800 people across the organisation. To give you a sense, we're a 38,000-person organisation, so it's a significant commitment on the part of the bank.

Dr MULINO: That's useful, thanks. If it would be possible to, on notice, provide just a brief summary document of the process—in a sense, the escalation where you start with certain less formal processes and work your way through, that would be useful.

Mr Elliott: Yes, we're happy to do that; no problem at all.

Dr MULINO: As the chair alluded to so subtly, I've asked all of the banks questions around vision and strategy. This touches on the broader culture point. For me, the need to change culture is one of the central findings of the royal commission. My focus on banks' mission statements and strategy statements is not so much that I see any of them as particularly objectionable; it's more that, no matter which of the banks—you go to 2012, 2015 and then now—they're all pretty much the same. A lot of organisations will say, 'The key finding for us is that our values, our strategy and all those elements were fine; we just need to live up to them.' The observation/question I would make is: when organisations go through really profound seismic events or challenges, at the very least I would have thought what you would see is that they would in a very serious way ask whether those kinds of documents are right or whether they need to refresh them. I think some organisations may be in the process of doing that. Again, without wanting to quibble with particular words, when you look at ANZ, one of its elements of culture is 'Customer centred':

> We are human, open and authentic; we use technology and data and combine it with empathy …

Again, there's nothing problematic there. It's more that, if I were starting with a blank sheet of paper in a post royal commission world in the financial services sector in general, I would have expected consumer protection best interests to be a bit more explicit and front-footed. I've put this question to all of the banks. It seems as though it's probably not explicit enough for me in these very important documents for staff and external stakeholders.

Mr Elliott: It's a completely valid question. First of all I just say that totally I agree with you in principle and in practice. Our values have not changed, and that you would expect. They are common human values of honesty, decency and accountability, so I don't imagine you would expect to see those change. Our strategy has changed. Our strategy today is very different to what it was five and 10 years ago. There will always be some common elements—we're still a bank; we still have the same types of customers—but the articulation of what we stand for has absolutely changed. We never had a purpose before. That was not something we could really articulate, and today our people can articulate the purpose of the company, so we have the articulation of that.

To your point, though, that culture articulation that you mentioned there? Fine; I accept that, like anything, these things are open to criticism. That was from a blank piece of paper review that we did only recently. It was about the time of the royal commission; it was heavily influenced by it. I'm not making excuses, but I would like to remind you that a company like ANZ is more than the business that was reviewed in the royal commission in Australia. We operate in 32 countries. We have a large institutional bank. We do foreign exchange trading. We're one of the largest debt capital market traders in the Asia-Pacific. We're the biggest trade finance provider in

Australia. When we have a culture, it has to resonate. We can't say, 'The culture for you over there at ANZ is different than for those people.' It has to be something that resonates for people. Maybe we've lost something in some of the articulation of that, and it's worth our taking a look. But I 100 per cent agree on your point about: 'Is it a living document? Is it is a living thing? Should we be constantly improving, updating and challenging?'

The other thing that we did, and we continue to do, is constantly test it with our people. Is it still relevant? Do they understand what it means? Do they identify with it? We do that through a whole range of things. We've had what is called a jam, where we get all of our staff from around the world talking online about these issues, what resonates with them, what they think it means et cetera, so we can modify it. We do lots of online training. We do the surveys that I mentioned in answer to the chairman's questions before. We're constantly trying to be clear about what we stand for. Over and above that, it's really about what we do. Every branch in our network—and there are 700 across Australia and New Zealand—every week they meet before the customers arrive and they sit and talk about an aspect of values, strategy, culture and what it means to them. We use those sorts of fora, for example, to articulate to our people what we think 'good' looks like, 'Here's an example of something that went well and here's something that didn't go so well.' These things are not easy. Moving culture is not something you can do overnight, but it is absolutely forefront to what we believe and what we're committed to changing.

Dr MULINO: Segueing from the last part of your answer, I agree that the key here is really looking at outcomes in six, 12 and 18 months. For me, in a sense, the ultimate test of the culture as manifested in those vision and strategy statements but also in all the practical things you do across the organisation is going to be how many cases of breach there and how they are handled internally and externally. It would be very important for your customers and other stakeholders but also us to see that reported over time.

Mr Corbally: One of the things that also impacts a culture is an incentive structure. We've done quite a bit of work recently on incentive structures. We've totally transformed the way in which we incentivise our staff. Eighty per cent of our staff will effectively no longer receive a bonus.

Dr MULINO: A lot of those objectively identifiable changes are sensible and I think broadly agreed. We'll get to the ones that are important but trickier to pin down. My last question is a quantitative question relating to some of the earlier discussions on interest rates but really focused on whether you've undertaken any analysis on the response by your customers in terms of spending and saving from the stage 1 tax cuts.

Mr Elliott: No, not in an explicit sense. As I said, we have the data to say what our customers did in terms of repaying debt faster or slower and those sorts of things, but we have not done a targeted study to say: 'Tax cuts here. What did customers do as a result?' I'm sure we would have lots of smart people who would think that would be a really interesting thing to do. It's not clear to me what I would do with that information. We run a—

Dr MULINO: Give it to the committee!

Mr Elliott: We run a very complex organisation and it's very hard to isolate outcomes to one input. There are so many things going on at the moment. As a bank, we would see very little utility in doing something as specific as that.

Mr Corbally: Regarding customers who were previously in arrears—in default on their loans—the only thing we have seen from a risk viewpoint in particular is that it appears they have used some of the tax money to repay some of the debt and get themselves back on track. So it has had a benefit in that sense. We've also seen an improvement in terms of the number of customers who have used it to help them get ahead on their repayments on their home loans. We have seen that. As to whether it is directly attributable, the timing of it coincided with that.

Dr MULINO: On that last observation, you would be aware that some of the other banks have used a combination of macro-analysis of retail spending figures but also a bit of micro, de-identified data that you obviously have as a way of trying to backward induct what certain cohorts within your customer base are more likely—

Mr Elliott: I wasn't—

Dr MULINO: It sounds like you haven't done that.

Mr Elliott: I guess that's a question for them. It's not clear to me what you do with that data. Once they find out all of that—I don't know which bank it was—what do they do?

Dr MULINO: It's part of their attempt to understand the macro economy.

Mr Elliott: Okay.

Dr ALY: Hello from very warm and sunny Perth today. I have a few questions with regard to the implementation of the royal commission recommendations and some of the points raised in the report. My first

question goes to the introduction of the new accountability and consequence principles that are outlined in the briefing that you supplied, on page 4. What consequences are there for nonadherence to those principles? Can you talk us through how those principles and the accountability framework are monitored?

Mr Elliott: Sure. I will step back a little bit. We have strengthened our whole consequence and accountability framework quite maturely. We have a consequence review group which I chair. Kevin, the chief risk officer, and many of our executives sit on that. We have a very robust process that monitors, for want of a better term, compliance of all 40,000 people at ANZ. It looks at a range of data points—things like: have they done their required training; have they taken their mandatory leave; have they had an audit finding behind them; are they subject to a regulatory review; have there been complaints? All those data points come in and then we apply our consequence principles to those. They range from there being nothing to answer for, which is pretty rare, to a verbal warning, a written warning or an impact on their pay all the way through to termination of employment.

We have some guidelines. They have to be guidelines because none of these things are programmatic such that if somebody hasn't done their compliance training you would expect to see X as an outcome. We apply them. The data from all of that gets reviewed by that review group regularly, and it gets reported to our board for challenge—to make sure that we are being reasonable, equitable, tough enough, robust in terms of their application. The only other thing I would say is that I think we're doing an increasingly good job of explaining that framework to our people so that they understand what the consequences of their actions are.

Mr Corbally: The only thing I'd add to what Shayne said is that we released our annual report a few weeks ago, and in that annual report we outlined the number of consequences that were applied to staff, the nature of those consequences and the number that applied to senior management as well.

Dr ALY: Just on that, in response to all of this you've dedicated a part of your board's agenda to things like customer satisfaction, complaints and remediation and that kind of monitoring. Does that mean that you have now charged the board with ultimate liability and accountability? What is the process if the board identifies something? You've got the board reviewing all of this. Does that mean you've charged the board with ultimate liability and accountability?

Mr Elliott: I'm not sure I'd use that exact language. The board is ultimately accountable, as are the executives. They utilise the data that we're talking about to, as I mentioned before, challenge management and ensure that management is applying robust consequences that are appropriate and sufficient et cetera. For example, when they look at the complaints data—that is, how many, what they're about, how many get solved, how many go to AFCA and all those things—the board would then challenge management to: what are we doing about it, what are our objectives to reduce X, Y, Z and by when? They hold us to account if we don't achieve those things. They hold us to account in terms of all of those I talked about like pay, promotion, keeping your job et cetera. But they've always had those obligations. All we're doing now is making sure that they have better access to data to fulfil their obligations.

Dr ALY: But it's mainly quantitative data?

Mr Elliott: That's a good question. Not necessarily. It's obviously always easier, in many ways, to create that data, but there's also qualitative data. Qualitative data will be things like—we have those culture audits that they get access to. The people who do the audits come in and not just write the report but talk to the board about it. Our board spends time with all of our regulators, one on one, or group, without me present. Even yesterday they spent time with APRA, for example, for few hours. They do that with AUSTRAC and they do that with ASIC to get feedback about those things. They also spend time with our auditors, our external auditors, to get reviews. Then in any given year they commission, or management commission for them, maybe up to a dozen independent reviews of various aspects of what we're doing. Many of those are to do with much more qualitative reviews of: is the bank doing what it said it would do, is the bank treating its customers fairly, and are we living up to our promise to various stakeholders? They get access to all of those inputs as well.

Mr Corbally: The only other thing I'd add is the board itself gets out and visits customers, visits our branch staff and visits staff in different locations and gets feedback directly from the customers and staff, rather than necessarily just through us as a management team.

Mr Elliott: Yes. Our board have direct access not just to the most senior executives; they have access to many junior staff. This year the board have been in Wagga Wagga, they've been in Hobart, they've obviously been in Sydney and Melbourne and they will be in Brisbane later, in addition to, sometimes, international locations. They make sure that they spend time on their own, without the executives present, talking to our people and our customers to get feedback.

Dr ALY: I want to go to recommendation 1.8, which looks at better protections for customers. The recommendation there is:

- banks will work with customers:
  – who live in remote areas; or
  – who are not adept in using English,

  to identify a suitable way for those customers to access and undertake their banking;

In that response, you said that you've established the ATSI telephone service and you've introduced a new referee to make it easier for Indigenous customers to prove their identity; you've revised security questions; and you've removed overdrawn and dishonour fees from Pensioner Advantage accounts. What have you put in place to protect consumers who may not identify as ATSI but who may have issues with English literacy? How do you identify when a customer is going to need assistance? What kinds of assistance do you provide to them?

Mr Corbally: In the case of customers that are not able to speak English or have challenges with the English language, we have a range of staff within our call centre who speak multiple languages and can answer and address any questions that they might have. So we have that service available across a whole range of different languages.

Mr Elliott: I'm happy to get the detail on that. I know it's pretty comprehensive. One of the things that ANZ is blessed with is that we have a very multicultural workforce—partly because of our own network across the Pacific and Asia—and that reflects itself in our local contact centres here. But then we also have specialist teams—for example, within our small business areas, we will have specialist teams that work with members of the Indian community or the Korean community, or whoever it may be, to make some of those things easier. We also run a program with the Brotherhood of St Laurence where we employ people who've come here as refugees—it's called the Given the Chance program. We've employed, I think, almost a thousand people over the years, and many of those people we retain, and so, as you can imagine, many of them come from communities that are in themselves vulnerable and have difficulty with the complexity, sometimes, of the Australian banking system, and that has also given us a rich insight into some of their challenges.

Dr ALY: I'll give you an example. Somebody could be on the phone to you and have a very comprehensive kind of conversation, using very basic English language skills, in a basic communicative exchange. That doesn't necessarily mean that they have the language skills to be able to deal with some of the more financial jargon that they would need to comprehend the ins and outs and the details of a particular product, which leaves them vulnerable to signing up for products that they may not necessarily need and also may not understand. But they can carry on a conversation. Just because you can carry on a conversation in a language doesn't mean you have a comprehensive enough knowledge of that language to be able to participate fully in different scenarios, like financial scenarios and legal scenarios where jargon is used. How do you ensure, then, that people like that are not being taken advantage of—that part of your culture and the cultural change that you're looking at is ensuring that customers like that are protected?

Mr Elliott: I think you raise a very valid question, and I think it's a very complex area. So it's one of those things where it would be very easy for me to say, 'Yes, we agree, and we're doing all these wonderful things,' but it's actually inherently complex. People are adults and they deserve to be treated as such, and it's not for us to judge people in terms of their capacity. But I take it as a very real challenge. So we work with a number of agencies, and we run a program in particular called MoneyMinded where our branch staff are trained to identify people who may have challenges—irrespective of language; it doesn't matter about their background; they may just have a challenge in terms of financial literacy and understanding the basic concepts—where we can offer people training programs. We even have a program that teaches people and incentivises. We work with the federal government on a program called Saver Plus, which even helps people learn the basics of saving, and for every dollar a customer saves we match it. So we have a range of programs, and our staff are actually trained to identify people who may be having difficulty there. It will not be perfect.

Dr ALY: If your staff identified somebody, would they be directed to use something like a telephone interpreter service, for example?

Mr Corbally: We are reviewing at the moment our use of interpreting services. We are trialling that.

Mr Elliott: The other thing the entire industry needs to do a better job with—and that's done through the ABA and with others—is plain English terms and conditions. I think ASIC have made some very helpful comments recently about the fact that in many cases it's become too legalistic and that we can all do a better job of plain English in a way that is also safe—that is, it is not only easy to understand but safe for the consumer and the financial institution that is offering these services.

Dr ALY: I have one more question, and it's really just a clarification. In your annexure where you put royal commission commitments, the first one is removing overdraw and dishonour fees on Pensioner Advantage accounts. Your response there is that—I'm sorry; I misread that. I thought you had only just committed to it, but you actually have completed removing the overdraw and dishonour fees?

Mr Elliott: Yes, we've done that.

Dr ALY: Thank you.

CHAIR: Before we get to the break, I wanted to ask a question in the ongoing topical context of interest rates. Firstly, former Prime Minister John Howard today said he thought the interest rates have been too low and had a series of criticisms, the least of which is me raising those concerns. What is the view of ANZ about the reduction in interest rates over the past three cuts?

Mr Elliott: I'm not sure that it is for us to comment on. The Reserve Bank has taken actions that it feels are appropriate to meet its objectives, which are to achieve a certain inflation target over time. It has a relatively limited number of tools available—

CHAIR: Do you think they are advantageous to the economy overall?

Mr Elliott: I'm not an economist. My personal view is that they are. I think that the issue we're talking about here is the timing or immediacy of the impact. I think the immediacy of the impact is not as fast as we have become used to in the past. There is no doubt that, as rates get lower, it takes a lot longer for it to come through. What do I mean by that? People are not going out and spending. They're paying down their debt. That's a good thing for the economy. It must be a good thing for the economy that people have less debt and at some point have a greater capacity to consume, but the timing of that impact will obviously be delayed.

CHAIR: Has the bank, either through notes and/or internal considerations, looked at the consequences of quantitative easing and other unconventional monetary policy.

Mr Elliott: That's a very good question. We have only in a very superficial way at this point. We have actually commissioned that work to be done. We have asked in particular our economics team to go away and look. We all understand what QE means in terms of theory, but obviously the environment in Australia is very different from the environment in Europe and the US, where there are large quantities of government debt on issue, which we don't have in Australia. So the question we've asked—and I should qualify this by saying we think it's incredibly low probability—is: 'If we were to get into that scenario, what exactly would that mean? What would it look like and what would the consequences be?' We've only just kicked off that work.

CHAIR: That means that there's further work to be done. Is the intention of ANZ to publish work on that, or is it just for its own internal guidance?

Mr Elliott: We might well publish it. I don't know. That wasn't in the terms of reference I gave the team. I just wanted to know for our own board. Really it was an educational piece saying what it would look like and what exactly the Reserve Bank would do. You know, quantitative easing isn't very narrow in its definition; there is a broad range of tools in that, and we're asking them to opine on those so we can work through what the consequences could be. I imagine that, if it's useful, thoughtful and insightful work, we may well publish it, but we haven't made that decision.

CHAIR: So, if we don't see a paper put out by the ANZ on QE, it will be neither useful nor insightful?

Mr Elliott: It might have something to do with the quality of our economics team! I'm not really sure. We'll see.

CHAIR: I think you're compelled to publish it!

Mr Elliott: I think there's increasing interest from certainly the financial community but also our customers just to understand, because the Reserve Bank and others have mentioned this term and so people would like to be educated about what it is, what it looks like and what the implications would be. As with everything, part of our job is around education and doing that. So, yes, I think we probably could look to publish something. I guess I've now committed to publishing.

CHAIR: The economics team had best work overtime. Just going back to interest rates, there's a question I asked of the NAB this morning in the context of house prices. Of course, we have projections of house prices increasing by around 10 to 15 per cent, particularly in the Melbourne and Sydney markets, next year. Personally, that concerns me more than it provides any sense of comfort. But, in the context, do you feel that interest rate cuts have contributed to the projected continued escalation in house prices? Mindful of the change of prudential standards by APRA around lending for mortgages, has there been a shift in behaviour amongst consumers since

those changes have come into place that then can be disaggregated from the separate issues of APRA versus interest rate cuts?

Mr Elliott: If I step back a little bit, I think most people, when you talk to them, would describe the correction that we had in house prices 12 to 18 months ago as healthy, a good thing et cetera. I think most people have been surprised. As with any correction, there would be a period of bottoming out before the situation would resume. I think most people have been surprised at how quickly we seem to be back into a house price inflation scenario. I think there will inevitably be a number of factors that are driving it. One is just good old-fashioned confidence. There is no doubt—in my mind at least—that lower rates, the ability to borrow and get a home loan at a lower price, have meant that people have more ability to borrow and to finance their borrowing to buy a home. So it has increased demand; there is no doubt about that.

It has coincided with a time when you have seen a small—I don't want to overstate it—loosening in bank standards. What I mean by that is that we went through a period post royal commission, or actually even before the royal commission; let's not forget the macroprudential rules that we had in place from 2015. We had macroprudential rules put in place from the Council of Financial Regulators, essentially to try and slow down house price inflation, which worked. That was loosened. At the same time, post royal commission, the banks tightened up, because of our interpretation of responsible lending limits and rules, and we've started to loosen that as we've become more comfortable and clear about what those rules are.

So you've got a slight loosening in the regulatory environment and you've got lower interest rates and tax cuts. I would say that, while broad economic confidence may not be high, there seems to be an emerging confidence in the housing market. Those factors have conspired to see house price inflation. We had a discussion at our board this week about the outlook for that. We're not necessarily all the experts, but we would agree that the outlook would be for reasonably robust house price inflation as a result of those factors. Whether it's 10 per cent or 15, who knows? But they seem to be reasonable assumptions at this point.

CHAIR: We'll take a break.

Proceedings suspended from 15:03 to 15:21

CHAIR: We shall resume this hearing of the House of Representatives Standing Committee on Economics with our witnesses from ANZ. I'll perhaps just continue with the line of questioning on competition and open banking. How is ANZ preparing for the deadline of next February?

Mr Elliott: We will be ready to comply with the requirements on the timetable that's set out at present. It's simple.

CHAIR: Okay. It's simple—unlike Mr Chronican, who gave us a lot more complicated answer.

Mr Elliott: I note that I wasn't able to hear everything that Mr Chronican was saying. My understanding is that I think he may have been referring to the fact that there are two stages which the banks need to prepare, and then the ACCC needs to run through a testing regime.

CHAIR: Yes.

Mr Elliott: We don't have any control over that. We'll be ready to participate, but we don't control how the testing regime will go and so I can't comment on that piece of it. That's a question for them.

CHAIR: Fair enough. But in the context of competition, what are you expecting to be the consequence of the introduction of the new regime—and particularly its impact on the ANZ?

Mr Elliott: I'm hoping that it will increase competition. We're supportive—in fact, open data and open banking came from your predecessor on this committee, in this room some few years ago, when it really started to build momentum. We were a supporter from the very beginning. We see it as an opportunity for ANZ, and it will increase competition. As one of the smaller banks in Australia, we see it as an opportunity for us.

CHAIR: Just continuing on that theme: in terms of technology, one of the concerns that's been raised with me is around low-cost routing through terminals at retail outlets and the like. What's the adoption of low-cost routing by ANZ?

Mr Elliott: We've enabled it with 95 per cent of our terminals. I think it's about 3½ thousand terminals with—

CHAIR: That's quite a high number.

Mr Elliott: Yes. Again, this committee raised that some time ago and we got on with it. The reason there is a little bit of a tail is that some of the terminals are quite old and not capable of the transition. So we've offered that, and there's some level of adoption of it. I'm happy to give you the data.

CHAIR: Okay, that would be helpful. But you're saying it's only five per cent that haven't been updated?

Mr Elliott: Yes, in terms of capability. Now, whether merchants choose to utilise the option is different, but they are able to, yes.

CHAIR: What pathway has been provided in terms of information to the retailers about the adoption?

Mr Elliott: I'd have to find exactly what that is, but I know we've contacted them or made information available. We've made the technology easy and available to them, and they understand that they can do that if they so wish. I had it in my briefing notes and I can't remember it, but I know that there was an adoption rate of how many have actually elected to use it. It's probably a little bit higher than I imagined it would be, but we can certainly give that to you.

CHAIR: If you could take that on notice, that would be very good. Continuing with the theme of technology: cybersecurity is obviously an issue that's going to continue to be a challenge today and into the future, not just for you but for us. What are the strategies that are in place at ANZ to address the existing and continuing threats to cybersecurity?

Mr Elliott: I'll just stand back a little: banks are in the security business. We've been in that from day dot. The way we go about securing our customers' money and their data has changed, and now we talk about cybersecurity. It's sort of a part of the culture of banking. What we are doing is continuing to invest really heavily. That comes down in two parts. One is on the hardware—working with the world's best providers of the technical hardware that secures the bank and the architecture within the bank. The second side is the software, which is the culture of the bank—that is, we have people who understand it, can design processes, can work with government agencies, and can work with other people in the industry to stay a step ahead. We have a cyber control centre, where all the high-tech stuff feeds in, which is being continuously monitored. We are constantly monitoring all parts of our network for risk and acting, whether that's low level cyber-risk, such as amateurs trying to hack in, or whether it's sophisticated nation-state activity et cetera.

CHAIR: In terms of numbers of people and dollar figures, what is being spent on cyber security?

Mr Corbally: We have over 200 people in our cybersecurity team in the cyber command centre, working together.

Mr Elliott: I couldn't tell you the numbers—

Dr ALY: How many do you have in your cyber centre?

Mr Elliott: More than 200. We were saying that we will get back to you on the dollars. Depending how you count it, it's likely to be hundreds of millions of dollars, I would imagine. It will be a significant number. I think sometimes people think somehow cybersecurity is new. We've been doing it for a long time. Technology is not new in banks. We've had mainframes and systems for 50 or 60 years. It is what we do.

CHAIR: That might be true, but the customer and the external interface connecting to the banking architecture is not 50 years old.

Mr Elliott: Agreed.

CHAIR: I accept that it's probably evolved as you've gone along. The concern that exists among many customers, ranging from people who unintentionally transfer money to people they didn't intend to, to those who have been scammed, and the concerns about the credibility and security of their financial data are pretty serious, wouldn't you say?

Mr Elliott: Yes, I've spent time with that team and time with our scam and fraud teams and my observation is that the bad guys—for want of a better term—have realised that hacking into banks is really hard. The point of weakness is customers and/or other parts of the ecosystem, so they're much more likely to target, sadly, vulnerable people, who are duped into providing access to their accounts through passwords or other things. We're seeing a rise in that kind of activity as a result of the fact that the bank systems are actually incredibly secure.

CHAIR: On superannuation—I know I asked about superannuation and duplicate accounts before—I'm looking at a document in the context of fees associated with different superannuation choice options. It claims that ANZ has cheaper fees than both industry and Australian fund average fees.

Mr Corbally: That's correct. Lowest cost.

CHAIR: It says that for a pension balance of $250,000 the fees are about $1,500 and for a $50,000 MySuper balance they are $350 or thereabouts. Is that correct?

Mr Corbally: It sounds about right, yes.

CHAIR: In that context, how does that compare between other funds, in terms of returns? Low fees; what about returns?

Mr Corbally: Since the inception of MySuper, which was about five years ago, the returns on our funds have been on par if not even better than industry average.

CHAIR: How does that compare? One of the things that's come up in this inquiry has been about the balance between equities, which is quite straightforward, versus unlisted assets. Does that include unlisted assets as part of a portfolio?

Mr Elliott: I don't believe so, to be honest. We'd have to confirm that with you. We'd have to come back.

CHAIR: Could you confirm that with me?

Mr Elliott: Yes.

CHAIR: I might put this to all banks where you have super funds where part of the activity is related to the income from unlisted assets. Based on data and evidence that has been provided so far, it seems that a lot of the returns, and particularly the stronger returns, seem to be unlisted versus listed. Would that be a fair assessment, based on where you sit in the market position?

Mr Elliott: That is my understanding. I'm not an expert on this industry, but that would be my understanding as well, yes—that that's true. And that's partly a reflection of a low-rate world.

CHAIR: I might put some questions on notice about that. When it comes to interest rates, again, we've talked about mortgages and mortgage products and the impact that has, particularly on disposable income. Obviously a low-rate world is not great for those who contribute towards their lifestyle from term deposits and other types of interest-bearing deposits. But the other area that has an impact on debt levels is credit cards.

Mr Elliott: Yes.

CHAIR: What has happened in terms of credit card behaviour and whether people are paying them off faster?

Mr Elliott: Over a reasonable period of time now—a few years—if you look at the total debt outstanding on credit cards in Australia, not just ANZ, it is in very slow decline. People are borrowing less through their credit card. Some of that will be because there are better alternatives—personal loans, and potentially people are topping up their mortgages and other things, because obviously there's a reasonable rate difference. And then there is the provision of new services like the buy now, pay later providers et cetera. So, it is in very slow decline.

CHAIR: Have there been any changes in relation to interest rate cuts in particular?

Mr Elliott: I'd have to go and do the work on that. I'm not aware that there has been, but I'm happy to go and look at the data.

CHAIR: It just seems to me that when you've got low interest rates—what's the cheapest credit card option for unsecured debt?

Mr Corbally: It is 12.49 per cent.

CHAIR: And what's the comparable number for using the equity in your home?

Mr Elliott: It would be somewhere in the fours, probably.

CHAIR: It's quite a substantial difference in terms of financing debt.

Mr Elliott: Absolutely.

CHAIR: But it's clearly going to have quite a significant impact in terms of people's attitude towards debt and then where they're putting their debt—

Mr Elliott: Yes.

CHAIR: particularly if we're already concerned about the volume of debt people are taking on, which remains my concern. The other issue I have is in the context of the operation of salary arrangements and the extent to which there are metrics around bonuses. APRA's given a general edict on it being fifty-fifty as to how it should be set out. What's your view on that?

Mr Elliott: We've made a submission. This is the CPS 511 paper that APRA issued recently. We were one of many who made a submission, I imagine. There is a range of recommendations in there. We were broadly supportive of the direction. What we've tried to do, though, is point to some of the difficulties in implementation of some of those things. The particular recommendation you're talking about was essentially an idea that we have a balance between what they term financial metrics and non-financial metrics. Their recommendation is that financial metrics should be no more than 50 per cent of our scorecard. Our submission back to them was that we think that is too restrictive. We think there is not necessarily a trade-off between financial and non-financial

metrics, and we would think 50 per cent is too low a number to get that balance right. And we submitted a bunch of recommendations that we—

CHAIR: Just to clarify: you said too low.

Mr Elliott: Yes, we think it's too low. We think the number should be higher than that. We think it's legitimate for companies to have incentive structures that are more weighted towards financial metrics. Having said that, part of it was to do with the question, what exactly are you measuring? If we look at people like Kevin and me, we have two gateways in how we get paid. Our incentives are that we get to determine how much we get paid on a balanced scorecard today. Actually, at ANZ today our financials are already less than 50 per cent, in terms of our scorecard. We have people goals, we have risk goals and we have customer goals.

So, it's already less than 50. But there's a stage 2 that says that for us—and particularly me, as the chief executive—our remuneration is mostly in what we call performance rights. They are the right to acquire stock in ANZ. They vest to me only if we outperform our peer group in total shareholder return. Well, that's a financial metric, perhaps. APRA say that's a financial metric. We disagree and say it's more than a financial metric. So it's a bit harder to know how to count those two things and say you're above or below 50. That's a bit technical as an answer, but that's what we're getting to: trying to be helpful and saying how you would clarify the way those things were treated.

CHAIR: The key point I think you're making is that you think it's too low—

Mr Elliott: We think it's too low—yes.

CHAIR: Presumably amongst your peer group, you should see a shift as part of the standard that's being adopted. Going back to credit cards for a second, you discussed before how you think there may have been a shift—and not a particularly surprising one—around people's debt being held on credit cards and taking advantage of equity and lower interest rates, particularly around mortgages, and your preparedness to get data on that. Does the bank even track the extent to which people voluntarily make that choice?

Mr Elliott: Not to my knowledge. I think it would be quite difficult for us to actually track. There are so many moving parts—

CHAIR: You can potentially see people paying down credit cards and taking on personal loans and/or extending—

Mr Elliott: Yes. It's probably possible.

Mr Corbally: We have undertaken a program of work over the course of the last couple of years to proactively approach customers, particularly more vulnerable customers, who have persistent levels of credit card debt to encourage them to refinance in exactly the way that you've suggested—by using equity in home loans or other cheaper financial options. But we haven't done any other specific analysis as such.

CHAIR: Just out of curiosity, when you do that, do you also turn around to them and say, 'We're doing this, but, by the way, it probably wouldn't be a bad idea to get the scissors out and cut up the credit card'?

Mr Elliott: Yes, we do. We will go to people we can see have got themselves into a difficult spot and take a package that says—and I'm making this up—'You have $2,000 worth of debt. It's better for you to put that into a personal loan or on your mortgage or something else at a much lower rate. We will do that for you, but you need to cut up your credit card.'

CHAIR: As a contingency?

Mr Elliott: Generally. Otherwise we find that they do that and—

CHAIR: They just go and buy—

Mr Elliott: Yes. We're trying to help people and incentivise the right behaviour. Those have been reasonably successful. I can't remember how many, but we've done thousands and thousands of calls to people. A lot of people say, 'Thank you very much for the advice, but I don't want your help.' Other people take that on. There's actually been a reasonably good take-up of that and it's driving, I think, really good outcomes.

CHAIR: Just for clarity: when you say there's been a good take-up—

Mr Elliott: People say, 'Yes, I'd like to do that.'

CHAIR: But that also assumes that you can measure that sort of activity.

Mr Elliott: That activity we do—'We rang Kevin and he said he'll cut up his card.' We can measure that, we can see that happen and we see it drives a better outcome, because that customer has lower interest costs and they generally get themselves into a better financial position as a result.

Mr Corbally: We have customers proactively doing it themselves.

CHAIR: Just for clarity: what are the numbers of customers who have been in that situation?

Mr Elliott: I'll get back to you on that. We have the data. Thousands of customers have taken that up. And we continue. That is an ongoing program that we have. We launched it about a year ago.

CHAIR: About a year ago?

Mr Elliott: We started it. We were doing some analysis and our card portfolio recognised there was a problem. We did a trial. We had to spend quite a bit of time with some consultants—largely psychologists—on how to have that conversation with a customer. Understandably, if the bank rings them, customers might think it's a scam; they might think it's a trick; they might think the bank's trying to get them to do something that's not in their best interests. So how do you have that conversation in a positive way? We piloted it, we changed the pilot, we learnt it, and now it's fully rolled out and we do it on an ongoing basis.

Dr LEIGH: Mr Elliott, when you took over as CEO, you talked about unwinding the super regional strategy of your predecessor, Mike Smith—divesting ANZ of businesses in Singapore, Hong Kong, Mainland China, Taiwan, Indonesia and the Philippines. Do you ever see a day in which ANZ or, indeed, any of the other Australian major banks goes back into the Asia-Pacific in a big way?

Mr Elliott: We are in the Asia-Pacific in a big way. We reduced our exposure to retail banking. The businesses we sold there were the retail banking franchises. Our institutional bank still has presence in all of those countries and has actually grown its presence. The reason we do that is to support Australian and New Zealand companies exporting, trading and investing into Asia, and that's a very successful business. What we found was that retail banking, much like it is in Australia, is a scale business. It's hard, it's highly regulated and it comes with reasonable cost and risk, and it just wasn't viable for us to do that. I can't imagine that we will be venturing back into retail banking in Asia anytime soon. I can't comment on whether others will look at it. But it is actually a difficult business across that part of the world. You don't have branches. You don't have the scale. It's hard to just turn up and say, 'Hey, I'm ANZ, and you should bank with us.'

Mr Corbally: One of the things that being in each of those locations has allowed us to do is this: we have taken a number of small businesses—so we've taken delegations; I think it's over 200 small businesses now—up into Asia to visit China, Hong Kong and other locations. It allows them to connect with potential customers, or suppliers, in those locations. So having that franchise up there has actually been of benefit to our Australian customer base, too.

Dr LEIGH: I take your point on the institutional side, and I certainly wouldn't denigrate ANZ for having made an attempt to go into implementing their super regional strategy. But what does it say about the Australian banking sector that Australia's banks haven't been able to make significant inroads into retail banking in the Asia-Pacific?

Mr Elliott: That's a very good question. I don't know that it says anything in particular about Australian banks. I think what it says a lot about is the retail banking markets in Asia. First of all, you're talking about a region of at least 10 major economies, with different languages, different cultures, different religions, different levels of maturity, and, very importantly, massively different regulatory environments. So you end up running sort of subscale businesses in a whole bunch of different places. So I think it's just inherently difficult. We are not alone: RBS had tried and failed; ABN AMRO had tried and failed; a number of banks had, over the years; some of the US banks had. So we are not alone. I don't think there was anything particularly poor about ANZ's execution. I think it's just recognition that it's a very, very competitive and difficult market when you're starting with virtually nothing.

Dr LEIGH: But other countries have had more success in rolling out retail banking across the world. Australia's banks have not, by and large, made a go at that.

Mr Elliott: I think the data would say otherwise. The data would suggest that almost no bank has succeeded in a global or regional retail presence. Citibank was probably the most advanced, and that has more recently been closing countries and reducing its footprint. HSBC has been challenged by that et cetera. So there will be pockets where HSBC does a very good job, and Citi and Standard Chartered and others. But, as a general proposition, it has not been easy.

Dr LEIGH: To pick up on the line of questioning that Mr Kelly had before, NAB told us this morning that they will be out of thermal coal by 2035. Does ANZ have such a deadline?

Mr Elliott: No.

Dr LEIGH: Why not?

Mr Elliott: Because, from our perspective, having a deadline like that is not necessarily helpful. We see that the environment will be constantly changing, and we need to constantly change with it. Like any industry, we assess the risk profile. We look to the future. We think about the risks. We think about how our customers will deal with that change. We think about social attitudes to it. We think about the regulatory risk. We think about all of those things and make an assessment: 'Is this an industry we want to bank more of or less of?' What we have said is—and since I've been CEO we've said—that we would expect that, over time, our exposure to thermal coal will reduce. It has reduced by about 50 per cent since I became CEO. It hasn't been a straight line. It kind of goes up and down. But it's down quite significantly. I would imagine that that trend would continue. But we haven't put a deadline on when it will be zero.

Dr LEIGH: I'm just trying to reconcile that with what you said to me before about the bank's philosophies around climate change, and wondering, to the extent that you don't have a target, whether that is influenced by your significant engagement with Whitehaven, the pure-play thermal coalminer.

Mr Elliott: As I said, we have a number of customers. Our exposure to thermal coal is not significant; it's less than $1 billion today. It will continue to bounce around. But, as I said, over time, what we are doing is working with our customers around their transition plans. We believe that there needs to be a transition in the energy industry. We see that just purely from a prudent bank approach. We're increasing our exposure in the renewable sector and in the transitional fuels like gas. So we see it as an inevitable outcome.

Dr LEIGH: In terms of monetary policy, do you see further rate cuts as stimulating the economy, were the cash rate to come down to, say, 0.25 per cent?

Mr Elliott: I share the same concern as others who have appeared before this committee—and from what we read in the paper—about the reducing effectiveness of rate cuts. As we get closer to zero, they tend to have less impact than traditionally we would be used to. So I am concerned about their impact, yes.

Dr LEIGH: I don't think anyone would argue that the magnitude of rate cuts is smaller, but some argue that the sign flips and in fact a rate cut from 0.75 per cent to 0.25 per cent might have an adverse effect on the economy. Do you share that view?

Mr Elliott: I think it is technically possible. As I mentioned before, if I just think about ANZ, and obviously I don't have access to the national accounts, when we cut rates, for borrowers and customers alike, because of customer behaviour—paying down debt—we are taking more money out of our customers hands then we are putting in. That must have a negative impact on the spending capacity of ANZ customers. That must be a challenge for the economy and not necessarily stimulatory. But that is one lens. As I said, I don't have the RBA's broad analysis of the flow-on effects of all of those decisions.

Dr LEIGH: What would it mean for the importance of fiscal stimulus? If you are sceptical about the impact that further monetary stimulus could have and concerned about the fragile state of retail spending—discretionary spending—in the economy, does that then strengthen the case for measures such as accelerated depreciation, an increase in infrastructure investment and raising the Newstart allowance?

Mr Elliott: Perhaps. The economy is still growing—

Dr LEIGH: Not on a per person basis.

Mr Elliott: ANZ and I are not suggesting that there is a risk of a recession. But, if we accept that we are growing below potential, how could you stimulate that? The options you raise are all reasonable ones. There will be a question about the timing and efficacy of those issues. We know, for example, that there is a lot of talk about the potential benefits of infrastructure spending. While you would say that, over the long term, that makes lots of sense, what we know from our customers and some of the things we see is that there are already some capacity constraints in that sector of the economy. I think they are all reasonable items for consideration and I'm sure they are things the government and the RBA consider.

Dr LEIGH: You called recently for a conversation around quantitative easing. That was speedily rebuffed by the government. What's your reaction to that? How did that make you feel?

Mr Elliott: It's not my business to call on the government to do anything. I didn't call on anybody to do anything. I was asked whether the prospect of QE and negative interest rates was an issue for the broader community and something that deserved more conversation, and I suggested that that would be helpful. I was just making comments that one of the great benefits of Australia is that it is a relatively small place and we can get the right people—regulators, community members and banks—to sit around a room and discuss what exactly these themes would mean and what the outcomes would be. To be honest, that is one of the benefits of committees like this.

Dr LEIGH: Do you still think that such a conversation would be productive?

Mr Elliott: As we heard from your committee colleagues today, there is an interest in it and understanding the specifics of it. It wouldn't be unique to Australia; there is plenty of experience to look at around the world. I think there would be some benefit in a broader conversation about what has happened in those countries, whether it has been a good or bad thing, and what the good outcomes are—and I imagine there are a whole range of unintended consequences of it.

CHAIR: For clarity: my interest in the topic is largely to stop it!

Dr LEIGH: Were the government to change its view and engage in such a conversation, would you be available to participate?

Mr Elliott: Of course.

Dr LEIGH: In terms of the transmission mechanism for monetary policy, there are effectively two theories about the impact of passing through the rate cut in terms of reduced repayments. You've been quoted in a piece by James Eyres as saying that a rate cut that is not passed through in reduced payments is 'still effectively putting money in people's pockets just in a different way'. When I was speaking this morning with Mr Chronican, he acknowledged that that could be true in theory but said that in his view the cashflow effect was bigger than the wealth effect and that an interest rate cut which was passed through in the form of lower repayments for the borrower would have a stronger impact on the macro economy. Do you disagree with him?

Mr Elliott: No, I don't disagree with him.

Dr LEIGH: Do you think that the so-called wealth effect could indeed be stronger than the cashflow effect?

Mr Elliott: I wasn't referring to the wealth effect. I agree with Mr Chronican completely. If short-term stimulus is your objective he's 100 per cent right. The point I was making was that, if rate cuts get used by consumers to pay down debt, it is still a good thing for the economy; it's just that the transmission mechanism is much longer. It means that they're deferring their ability to spend. So, again, it depends on your time frame. I would be concerned if the message to the public out there were that paying down debt is a bad thing. It is not a bad thing. It is a good thing to do. It is a prudent thing to do. So that was more my commentary. It was more about the timing of any transmission. But I agree with Mr Chronican.

Dr LEIGH: So then you were judicious in saying that automatically passing through rate cuts in the form of lower repayments would not be in the interests of ANZ's bottom line. But, if we wanted to improve the transmission of monetary policy, presumably changing the default, so that by default borrowers did see a reduction in their repayment, would be optimal from a societal point of view, wouldn't it?

Mr Elliott: Not in my judgement. If you use the term 'societal', I think what you'd be asking me to do is potentially to put my customers into harm's way for the national good. I don't buy that argument. I think that's for our customers to decide. I think our obligation is to make that choice easy and obvious for them. I take the chair's comments before that perhaps, when you turn around the terms about whether they're electing it or not, maybe we can be better at communicating it. But we contact every single customer every single time there is a rate cut and offer them a chance to review their interest rate and lower their payments. So we do that.

Dr LEIGH: No-one's talking about taking away their choice. The question is whether the default is that your repayments fall or whether the default is that your repayments don't fall.

Mr Elliott: Again, I take the view that I have to act in my customers' best interests. We have taken a default view that it is in their best interests in the long term to repay their debt, and that is a considered view. I find it hard to imagine that I could ever push an argument that it's in my customers' interest to have debt for longer.

Dr LEIGH: You make that argument strongly, but it does mute the transmission of monetary policy, doesn't it?

Mr Elliott: Agreed.

CHAIR: Can I interrupt there. You've said something quite strong there, which is that you believe you'll put your customers in harm's way. That is quoting you. It's a pretty exceptional statement to say that if you change the default mechanism in the transmission, as the deputy chair has raised, you are putting your customers in harm's way. If they were in harm's way, the money should never have been loaned to them in the first place.

Mr Elliott: No, circumstances change. Maybe it is a strong term. I'm trying to make a point here. The point would be that I don't think it's reasonable to say that our default position should be to just keep putting money into customers' pockets. I'm not trying to overdramatise it, but what I'm trying to say here is that we have an obligation to our customers. We've just had a royal commission into when banks don't do the right thing by their customers. I feel really strongly about this one. It is absolutely our obligation to do this. We should give the choice to people

and make sure that people act on that choice. I accept there may be some problems with people being a bit latent and not paying attention and all of those things, but I don't think I should assume that our customers are lazy or silly. They've made a decision, and I respect that.

Dr LEIGH: People are sticky in their behaviour. We know this through behavioural economics. So defaults matter.

You said before, when I asked you about the front book-back book gap, that you didn't think that could be calculated based on public data. Are you able to shed any light on this?

Mr Elliott: Sure. Our front book-back book pricing—again, you were talking averages here—is less than 30 basis points. The reason I say 'average' is that not all prices are the same. If I look at, for example, our interest-only book, it may be very different from our PNI book. For some of those books the gap is less than 10 points, but on average it's 30. That's an average, and obviously there's a tail. That's a number that I'm happy to disclose. What we know is that, over time, both our new customers and our old customers are getting better and better deals because of increased competition.

Dr LEIGH: The analysis I have on back book benefits does have that figure of 30 basis points for ANZ, which is the same as Westpac and higher than CBA or NAB, suggesting that your back book benefit is indeed the equal highest of the majors.

Mr Elliott: No. Where that's misleading—our businesses are different. There is an assumption that all our mortgage books are the same. They are not. Something like 80-odd per cent of ANZ's mortgage book are owner-occupiers who pay principal and interest. That's got a very different front book-back book profile than investors who are interest only. Some of the banks that you refer to there are much more heavily weighted to that sector. So our mix explains the difference rather than any particular attitude. The reason we know that to be the case is our banks compete incredibly aggressively, and there's just no room for being out of the market by too many points. If that was the case, our customers would be leaving in droves.

Dr LEIGH: ANZ is not generally thought of as being a leader among the majors in fintech innovation. What plans do you have for ensuring that ANZ's investment in fintech benefits customers? Which fintech innovation currently being pursued by ANZ do you think will be of most benefit to customers?

Mr Elliott: It's interesting you say that. I think you're probably talking to the wrong people!

Dr LEIGH: You all tend to say that!

CHAIR: The expectation is that you defend yourself!

Mr Elliott: It's interesting you say that, because yesterday we had a fintech conference—at which I spoke—with our fintech partners, and I met them. I run our investment council at ANZ. We have an active program called ANZi. We're an active investor in about eight fintech companies—some big, some small, some brand new, some a little more established. Most of them are Australia based; there is one based outside Australia, but the rest are based here. They offer either critical pieces of technology infrastructure—which will be important for us, to build a better ANZ—or, mostly, a unique or really valuable customer proposition that we cannot offer but would like to embed into the ANZ service proposition. It's public information. We're a major shareholder in Lendee. We're a shareholder in Zip and DiviPay. There are a range of companies that we have invested in and partnered with. We're not a venture capital firm; we have to partner to build better services and products for our customers. I think we are well ahead on that. In addition to that, we have our own innovation that we do. We have hundreds of people and a team we call ANZX, which is building things with partners but more with the established technology community—so the Googles and that of the world—for better customer outcomes. That's a significant investment that we're making.

Dr LEIGH: Moving beyond the structural and investment aspects, what's the most important fintech innovation that you believe you'll be able to bring to your customers in the coming years?

Mr Elliott: I don't know. That will be for them. We have six million customers. They'll all have a different view on what's important to them. Some won't give a toss about fintech, to be perfectly honest.

Dr LEIGH: They won't know what's on your mind or what you anticipate coming?

Mr Elliott: No, and that's probably a good thing. I don't think we're in the business of gimmicks and flashy things that excite people. We're in the business of doing what we do and doing it really well. We have a very simple business. We help people buy and own a home, and we help people start and run a small business. We're saying we can do that in partnering with people who have better, smarter tools than we have. Most of it should be invisible to the customers. Inevitably there will be some things that are a little bit more flashy. We were the first bank, and for a long time the only bank, to offer Apple Pay; we went out and did that way before anybody else.

Now everybody takes that for granted. Some of it will be invisible. Most of it will be just, 'That small-business working capital facility I have just offers all these great things about managing taxes and my receipts,' and all that other stuff. They don't care how it works. A lot of it will be infrastructure and invisible.

Dr LEIGH: Thank you.

CHAIR: Sounds to me like you need to get better at promoting your fintech reputation!

Mr CRAIG KELLY: I have just a few quick additional questions. The $1.6 billion in refunds that you've set aside: you said that $400-odd million is the costs of processing it all?

Mr Elliott: Yes.

Mr CRAIG KELLY: So, there's actually about $1.2 billion in refunds.

Mr Elliott: Something like that, yes.

Mr CRAIG KELLY: Is that money being refunded because there were actually breaches of the law? Where's the threshold that you draw to say, 'Okay, I've got two cases, and we'll refund this one and we won't refund that one'? Where's the line?

Mr Elliott: The line is really simple. We've done a review. We had products and services out there. We told customers that this is what they did. There is a terms-and-conditions technical bit. And then we did a review saying that those three things will match, because what we told you and what was in the terms and conditions matched with what we actually did. So, did we charge you the right amount of interest? Did we charge you the right fees, et cetera. If not, our view is that we fix all of those. It is not a case of fixing this one and not that one.

Mr CRAIG KELLY: But the process of making the determination about whether this case falls into one that we'll refund and this case is—

Mr Elliott: They all get refunded. We're reviewing every single product.

Mr CRAIG KELLY: But you're not refunding every case.

Mr Elliott: Yes, we are.

Mr CRAIG KELLY: I'm saying, everyone who's brought a complaint to you—

Mr Elliott: No, it's nothing to do with complaints. The million customers we've refunded already today—most of them just got a cheque in the mail and a nice letter and they didn't even realise. I've had three. I got the letter saying, Mr Elliott, we've overcharged—

CHAIR: Just to clarify: you're the CEO of this bank, and you got three letters from yourself saying 'I took three amounts of money'—

Mr Elliott: Yes. One was $30, one was $27 and one was $80. That's what's happening. The average amount that's been repaid out, if you do the maths, is not—it's important that we give the money back; I'm not diminishing that. But we're remediating every single case. It's nothing to do with complaints. This is to do with: we have discovered a mistake, and we've gone and put it right.

Mr CRAIG KELLY: So, that number that you've done—there's not a case in there where it was an existing complaint—

Mr Elliott: Oh, it may well be. How did we find these things? Some of it is that we went looking, which is more recent, since the royal commission in particular. Some of it, to your point, Mr Kelly, was because a customer may have said, 'That doesn't sound right; I've done the homework and that's not what you told me.' So, sometimes it's led to that. We have a whole other team where, when customers make a complaint, we look at that. And sometimes it's just that we made a mistake on your account. With some of it people will say, 'I think you lent me too much money', or whatever it might be. We go through, we look at those things, and that team determines what the right remediation is. They'll say, 'Yep, you're right; we'll fix it and refund you, and by the way we've given you $200 compensation'—or $1,000 or whatever it might be. That's a different amount of money. That's nothing to do with the $1.6 billion.

Mr CRAIG KELLY: Okay, so that's completely separate.

Mr Elliott: Yes, that's separate. That's over and above that.

Mr CRAIG KELLY: So, that $1.2 billion, effectively, is money that you're refunding where the customer hasn't come and said, 'Hey, I've been ripped off because of this', or 'You've done the wrong thing' or 'The bank's misled me.' It's been cases where you've gone back and found that you've applied the wrong rate of interest for some reason.

Mr Elliott: Yes. And I don't want to speak for the other banks, but that's what we are collectively talking about; we're talking about remediation. There'll be some customers who are expecting it and know. But the vast majority are not expecting it.

Mr CRAIG KELLY: What about cases where there was a dispute? Say the bank says, 'We've defaulted you for this', and the customer says, 'Hang on: you've misled me' or the bank's engaged in unconscionable conduct or misleading and deceptive conduct' or the bank is acting in breach of their contractual terms. You're saying that those cases are in another basket.

Mr Elliott: Yes, that's in another basket. And the customers might ring up and do that, and sometimes our team says, 'Yep, you're right', and we agree on that, and that actually happens most of the time. If we say, 'Well, we disagree with you; we don't think we've done anything wrong', then that customer can go to AFCA. AFCA then will make a determination and say: 'We've looked at this. ANZ, you're right' or 'ANZ, you're wrong; you should give Mr Kelly X amount,' and we do that. In very rare cases, if we can't get an agreement there—and they are rare—customers may take legal action and take us to court, or vice versa. But they're pretty rare. What we did, partly as a result of this committee—last time I brought my colleague Colin Neave, our customer fairness adviser, and, with very, very complex cases, the ones that were case studies in the royal commission, he conducted a review, with some outside help, of those cases, and we have worked through that. I think something like 60 or 70 per cent of those have now been closed to the customer's satisfaction. We've made an agreement which they've accepted. There are a couple that are outstanding in that list.

Mr CRAIG KELLY: Those allocations or provisions are in a different bucket?

Mr Elliott: Yes.

Mr CRAIG KELLY: Is that something you disclose to the ASX?

Mr Elliott: No, because it's not material. When you add it up, it's not a material number. We're a large company, so our materiality threshold is generally something that would be—I don't know—hundreds of millions of dollars.

Mr CRAIG KELLY: But, to those people that are having the complaints—

Mr Elliott: I understand that.

Mr CRAIG KELLY: It may not be material to the ANZ, but I'm sure it's very, very material to those people.

Mr Elliott: I totally understand that, but your question was about disclosure to the ASX. I accept that, yes.

Mr CRAIG KELLY: Of those so-called legacy cases from the royal commission, you're saying you have a process whereby you're resolving those, and you're halfway through them?

Mr Elliott: No. We committed the individual cases we would review, and there were some collective cases—for example, there were some cases about customers in Groote Eylandt; there were more than one—and Colin hasn't conducted a review on every single one of those. I can get you the exact figure, but it is 80 per cent complete. Of the balance, there are a couple—

Mr CRAIG KELLY: That's 80 per cent of Groote Eylandt?

Mr Elliott: No—80 per cent of all of those cases—

Mr CRAIG KELLY: So what you would say are the legacy cases from the royal commission.

Mr Elliott: Yes—80 per cent closed. Of the 20 per cent left, there are a couple where we've made an offer to the customer and we haven't heard back, so we don't know, and there are a couple that we are continuing.

Mr CRAIG KELLY: You say those are non-material to the bank?

Mr Elliott: I don't mean to be dismissive, because I take your point, but, from a financial disclosure point of view, they're non-material.

Mr CRAIG KELLY: Given what's been exposed about the bank's conduct at the royal commission, why wouldn't you just try and settle the rest of those?

Mr Elliott: That's exactly what we're trying to do. But sometimes people have unrealistic expectations. These are complex cases, by definition. It's not always clear who's at fault. I also have a responsibility—it isn't my money; it is our shareholders' money. But absolutely it is our intention. That is why I asked Colin, with some external help from a consumer legal expert, to go and review those cases, and I did not give him any restriction in terms of what was reasonable. I just told him to do the right thing. He was a Commonwealth Ombudsman. He's got experience in that. He's made recommendations. I have agreed to every single recommendation he's made. Those things continue.

Mr CRAIG KELLY: What is the basis for the recommendations that he is making? Does it have to be that the bank has engaged in misleading and deceptive conduct that could be proved at court?

Mr Elliott: No.

Mr CRAIG KELLY: How are you determining it?

Mr Elliott: That's a very good question.

Mr CRAIG KELLY: That's what I'm getting back to: how do you determine, where you've got these leftover legacy cases, 'This one we'll settle and this one we won't'?

Mr Elliott: It's not a legal test. Again, it's hard to describe. It sort of the pub test. He says: 'I've looked at this case. I've read. I've listened. I've met the customer probably multiple times. I've heard their side. I've looked at the files. When I stand back, while we don't think there was anything legally wrong, in hindsight we could have done that better. We should have been better. We should settle here. This customer has gone through hardship. We should financially compensate them for this, forgive their debt, pay the money,' or whatever it might be. It's very broad.

Mr CRAIG KELLY: Of those cases, you say 80 per cent have been resolved one way or the other and there are still 20 per cent outstanding?

Mr Elliott: Yes.

Mr CRAIG KELLY: What quantity is that 20 per cent?

Mr Elliott: It's a handful.

Mr CRAIG KELLY: Is it 50 cases, 100 cases?

Mr Elliott: No, no. It's just a handful. It's a couple, a few. It's a handful, literally.

CHAIR: In closing, there are a couple of other questions that I've asked other banks. Do you complete internal analyses of other banks and their financial health—your competitors as well as small banks?

Mr Elliott: We do a review when other banks publish their financial results, mostly to do a comparative to say what's the quality of their loan book or their revenue momentum or whatever it is versus ours? We do that, not necessarily the financial health. Capital levels, we say how much capital do they have versus us. Yes, we do that.

Mr Corbally: We do have relationships with a range of different financial institutions globally. What we do look at on an annual basis for each of those from a risk assessment perspective, we undertake a risk assessment on each of those organisations, yes.

CHAIR: On the risk assessment of any of your other competitors, are there any concerns that you've raised about their financial health?

Mr Elliott: No.

CHAIR: I asked NAB this morning about the St James Ethics Centre's banking oath. Have you signed up to this oath?

Mr Elliott: Yes.

CHAIR: Has there been any effort or focus by the bank to encourage those people who see banking as a profession and with the standard to be upheld to do so?

Mr Elliott: Only in a very low key way. The reason is there's a fine line between, it's not one of those things you can mandate—you could mandate it—but—

CHAIR: I agree with you. I don't think it is.

Mr Elliott: It's a very delicate—

CHAIR: It's a form of self-regulation and holding yourself up against a standard, but there are also ways which people can choose to do it, to demonstrate it. In terms of addressing some of the issues that have come out of the royal commission, I would say it's pretty consistent and something—it's ultimately a decision for yourselves—that could be encouraged as the type of culture that the ANZ would want to adopt.

Mr Elliott: I don't disagree with that. I understand that. We've encouraged it. We've made it easy for people to find it and do it. It does cost money for people to sign up, so some people sit and think: 'Well, I'm not quite sure what you get for the money. I can sign up in my heart or in myself. I don't need to sign a piece of paper,' so people have different attitudes. But I take your point. We were talking about it before. I think we can probably do a better of communicating that across the group.

CHAIR: All right. It's Friday.

Mr Elliott: It's Friday.

CHAIR: Thank you for your attendance here today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearings. You'll be sent a copy of the transcript of your evidence to which you can make corrections of grammar and fact.

Resolved that these proceedings be published.

Committee adjourned at 16:12