

**9 SEPTEMBER 2021**

**ROYAL COMMISSION  
RECOMMENDATIONS  
AND ANZ ACTIONS**

# ROYAL COMMISSION RECOMMENDATIONS

## OVERVIEW OF ANZ RESPONSE

ANZ is responding to the spirit and the letter of the Royal Commission.

- We announced sixteen commitments in February 2019. These responded to a number of Commissioner Hayne’s recommendations and comments. These were made to improve the treatment of retail customers, small businesses and farmers in Australia. They picked up on work already undertaken or started in Australia as well as adding new reforms to past initiatives.
- Our progress as at 9 September 2021 on these commitments is set out in Table 1 below.
  - The progress includes action in relation to distressed agricultural loans, remuneration of front line staff, the Sedgwick Review, and culture and governance.
  - These actions relate to recommendations 1.14, 5.4, 5.5 and 5.6 which were directed specifically at banks for their action independent of Government and regulator responses.
- Our progress as at 9 September 2021 on responding to all of the 76 Royal Commission recommendations is set out in Chart 1 below.
- ANZ continues to engage with Government, the regulators and industry as they progress their response to the Royal Commission recommendations.

**TABLE 1: PROGRESS WITH ANZ’S ROYAL COMMISSION COMMITMENTS**

| Action   | Rationale  | Where we are up to  |
|--|--|---|
| <b>Retail customers</b>                                      |  |   |
| 1. Make our products fairer                                  |  |   |
| 1.1. Removing overdrawn and dishonour fees on basic accounts | Commissioner Hayne’s <b>recommendation 1.8</b> was that the Banking Code of Practice 2019 ( <b>Banking Code</b> ) be amended to, among other things, provide that banks: <ul style="list-style-type: none"> <li>• Without prior express agreement with the customer, will not allow informal overdrafts on basic accounts; and</li> <li>• Will not charge dishonour fees on basic accounts.</li> </ul> | We completed this commitment.<br><br>Circumstances where it is not reasonably possible or practical to prevent an account from becoming overdrawn are considered by the revised Banking Code of Practice, which came into effect on 1 March 2020. |

| Action   | Rationale   | Where we are up to  |
|--|---|---|
| <p>1.2. Accelerating work on how we design and distribute products so that customers get products that better meet their needs</p> | <p>The design and distribution obligations in the new Part 7.8A of the <i>Corporations Act 2001</i> (Cth) will commence on 5 October 2021.</p>  | <p>We have a dedicated team working on implementing the design and distribution obligations by 5 October 2021. This takes into account ASIC's regulatory guide issued in December 2020.</p> |
| <p>2. Improve our service to Aboriginal and Torres Strait Islander customers in remote communities</p>                             |   |   |
| <p>2.1. Setting up a dedicated phone service</p>   | <p><b>Commissioner Hayne encouraged banks</b> to develop a telephone service to assist Aboriginal and Torres Strait Islander peoples (and others living in remote areas) to access their banking.</p>                   | <p>We completed this commitment. The service is staffed by bankers trained in indigenous cultural awareness and assisting vulnerable customers.</p>   |
| <p>2.2. Easier options to prove identity</p>   | <p>Commissioner Hayne's <b>recommendation 1.8</b> was to amend the Banking Code to follow AUSTRAC's guidance about the identification and verification of persons of Aboriginal or Torres Strait Islander heritage.</p> | <p>We completed this commitment by introducing measures to make it easier for indigenous customers to prove their identity.</p>   |
| <p>3. Help customers by:</p>   |   |   |
| <p>3.1. Helping consumer credit card customers who are carrying persistent debt</p>  | <p>We want to assist our customers make choices which may help them manage and reduce their debt and banking costs.</p>   | <p>We have acted on this commitment by establishing an ongoing process to contact and offer assistance to credit card customers who are carrying persistent debt.</p>                       |

| Action   | Rationale   | Where we are up to  |
|--|---|---|
| <p>3.2. Help eligible customers move to low-cost basic bank accounts</p>   |   | <p>We completed this commitment by establishing an ongoing process to contact customers in receipt of eligible Centrelink or Veterans' Affairs benefits to offer them a move to a low-cost basic bank account.</p>  |
| <p><b>Farming customers</b></p>  |   |   |
| <p>4. Publish clear principles on how we help farmers including through:</p>   |   | <p>We completed this commitment by implementing principles outlining the assistance we offer to family farmers in financial distress.<sup>1</sup></p>   |
| <p>4.1. Not charging farmers default interest in areas declared to be affected by drought or other natural disasters</p> | <p>Commissioner Hayne's <b>recommendation 1.13</b> was the Banking Code be amended to provide that, while a declaration remains in force, banks will not charge default interest on loans secured by agricultural land in an area declared to be affected by drought or other natural disaster.</p>   | <p>Relevant revisions to the Banking Code of Practice came into effect on 1 March 2020.</p> <p>In our principles, we undertake to not charge default interest on a farmer's loan facilities if they are farming in an area subject to a drought or natural disaster government declaration.</p> |
| <p>4.2. Valuing farm land separately from the loan origination process</p>   | <p>Commissioner Hayne's <b>recommendation 1.12</b> was that the Australian Prudential Regulation Authority (<b>APRA</b>) should amend its Prudential Standard APS 220 to require that internal appraisals of the value of land taken or to be taken as security should be independent of loan origination, loan processing and loan decision processes.</p> | <p>In our principles, we undertake that all of our valuations are conducted independently of loan origination to ensure independence between the valuation process and the loan approval process.</p>   |

<sup>1</sup> Refer to <https://www.anz.com.au/business/industries/agribusiness/farm-debt-mediation-commitment/>

| Action   | Rationale  | Where we are up to  |
|--|--|---|
| <p>4.3. Giving farmers early access to farm debt mediation if they get into difficulties and supporting a national scheme of farm debt mediation</p> | <p>Commissioner Hayne’s <b>recommendation 1.14</b> was that banks, when dealing with distressed agricultural loans, should offer farm debt mediation as soon as a loan is classified as distressed; and manage every distressed loan on the basis that a mutually agreed “work out” will be the best outcome for bank and borrower, and enforcement the worst.</p> | <p>In our principles, we undertake that:</p> <ul style="list-style-type: none"> <li>• Our team has specialist Agri bankers;</li> <li>• We will offer early mediation to a farmer within 90 days of the banking relationship being managed by our specialist team.                             <ul style="list-style-type: none"> <li>○ We paused offering early mediation for a short period due to COVID-19. We have now resumed offering it.</li> </ul> </li> <li>• Before we participate in early mediation, we will inform farmers of their right, as an alternative, to make a complaint to the Australian Financial Complaints Authority (AFCA);</li> <li>• We support a national farm debt mediation scheme and will always offer farm debt mediation prior to enforcement action being taken; and</li> <li>• We believe that enforcement is a measure of last resort after other reasonable options have been explored. We also believe that early and continued engagement is in the best interest of all and will likely result in a better outcome.</li> </ul> |
| <p>4.4. Reinforcing our preference for working out difficulties over enforcing agricultural loans or appointing an external manager</p>              | <p>Commissioner Hayne’s <b>recommendation 1.11</b> was that a national scheme of farm debt mediation should be enacted.</p>  |   |

| Action | Rationale | Where we are up to |
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**Remuneration**

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| <p>5. Redesign how we manage and reward our people to better focus on the interests of our customers, the long-term health of the bank and team, rather than individual, outcomes</p> | <p>Commissioner Hayne’s <b>recommendation 5.4</b> was the regular review of remuneration systems for front line staff to ensure that the design and implementation focuses on not only what staff do, but also how they do it.</p> | <p>We completed this commitment by changing the way we financially reward and manage the performance of our people. These changes</p> <ul style="list-style-type: none"> <li>• Reduce the emphasis on variable pay and include replacing bonuses for the vast majority of employees with an incentive based on the overall performance of the ANZ Group.</li> <li>• Support a performance assessment process that focuses on both ‘what’ people achieve and ‘how’ they behave.</li> </ul> <p>We complete an annual review of the Group Remuneration Policy, including the effectiveness of our remuneration arrangements. There were no material changes recommended in the February 2021 review.</p> |
| <p>6. Continue to implement the recommendations of the Sedgwick remuneration review</p>   | <p>Commissioner Hayne’s <b>recommendation 5.5</b> was that banks should fully implement the recommendations of the Sedgwick Review.<sup>2</sup></p>  | <p>We have completed this commitment with the exclusion of those recommendations that have industry level dependencies.</p> <p>Mr Sedgwick has completed his review of the implementation of his recommendations, with a report submitted to the Australian Banking Association (ABA) in June 2021.</p> <p>ANZ continues to review our processes to ensure we adhere to the Sedgwick recommendations.</p>   |

<sup>2</sup> The Sedgwick Retail Banking Remuneration Review relates to the ANZ Retail and Commercial business

| Action | Rationale | Where we are up to |
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**Accountability, culture and governance**

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| <p>7. Strengthen our accountability and consequence framework</p> | <p>Through the Royal Commission process we identified that we had not consistently held executives to account for significant failings.</p> | <p>We completed this commitment by strengthening our accountability and consequence framework. This includes:</p> <ul style="list-style-type: none"> <li>• The Board receives reports on significant risk, audit and conduct issues, which are considered when determining end of year performance and remuneration outcomes.</li> <li>• Governance by the Enterprise Accountability Group which is chaired by the CEO and operates under the delegated authority of the HR Committee.               <ul style="list-style-type: none"> <li>◦ Divisional Accountability Groups also meet regularly to review relevant risk and audit events, code of conduct themes and actions to strengthen risk behaviours;</li> </ul> </li> <li>• Principles that guide a more consistent approach to consequence management, including impacts on remuneration;</li> <li>• Guidance to our leaders on when and how to undertake accountability reviews; and</li> <li>• Expanded disclosure of senior leader accountability.</li> </ul> |
|---|---|---|

| Action   | Rationale   | Where we are up to   |
|--|---|--|
| <p>8. Culture audits and acting on identified problems</p>   | <p>Commissioner Hayne's <b>recommendation 5.6</b> was that we should:</p> <ul style="list-style-type: none"> <li>• assess our culture and governance;</li> <li>• identify and deal with any problems with that culture and governance; and</li> <li>• determine whether the changes made have been effective..<sup>3</sup></li> </ul> | <p>We are continuing to act on this by:</p> <ul style="list-style-type: none"> <li>• Monitoring culture metrics and implementing initiatives to support the shift to our desired culture (e.g. building leadership capability in change);</li> <li>• Conducting culture reviews by Internal Audit and acting on problems identified. Follow up reviews determine the effectiveness of actions undertaken and the impact on cultural shift;</li> <li>• Improving how we listen to our people so that they have different ways to 'speak up', including more regular surveys; and</li> <li>• Improving our approach to managing Risk Culture to enable our Executive Committee and Board to monitor progress towards the desired state.</li> </ul> |
| <p>9. Allocate specific responsibility to our BEAR executive(s) for our products and complaints about them</p> | <p>Commissioner Hayne's <b>recommendation 1.17</b> was that APRA should require banks to have a responsibility under the Banking Executive Accountability Regime (<b>BEAR</b>) for all steps in the design, delivery and maintenance of all products and any remediation.</p>   | <p>The Government has consulted on the extension to BEAR, to be known as the Financial Accountability Regime (<b>FAR</b>). We will complete these commitments when legislation to enact the FAR commences.</p> <p>Before then, our executives must act with honesty and integrity, and with due skill, care and diligence and their accountability statements set out requirements for them to:</p>  |
| <p>10. Make our BEAR executives explicitly responsible for preventing conduct that harms customers</p>         | <p>The Government's response to Commissioner Hayne's <b>recommendations 6.6, 6.7 and 6.8</b> stated that it will introduce a regime similar to BEAR for non-prudentially regulated entities focused on conduct. This would be administered by ASIC.</p>   | <ul style="list-style-type: none"> <li>• Develop and maintain open and transparent relationships with all regulators (including ASIC where applicable); and</li> <li>• Be accountable for the products they offer to their customers and complaints about them.</li> </ul>   |

<sup>3</sup> We recognise that recommendation 5.6 requires the ongoing review of our culture



| Action  | Rationale  | Where we are up to  |
|---|--|---|
| <p>11. Require our BEAR executives to be open, constructive and cooperative with ASIC</p>                           |  | <p>See above</p>  |
| <p><b>Remediation</b></p>   |  |   |
| <p>12. Publicly report on how we are fixing our significant failures</p>  | <p>The appropriateness and timing of remediation was subject to significant attention through the Royal Commission process.</p>  | <p>We completed this commitment by publicly reporting on our progress on our remediations in both our half- and full-year reporting suite.</p>  |
| <p><b>Dispute resolution</b></p>  |  |   |
| <p>13. Commit to public principles on managing complaints and disputes from retail and small business customers</p> | <p>The principles are aimed at giving customers transparency about how we will treat their complaint against us and, if legal proceedings cannot be avoided, act fairly in them.</p> | <p>We completed this commitment by implementing Dispute Resolution Principles, incorporating model litigant guidelines.</p> <p>The principles apply to our people and our representatives (e.g. external law firms) when managing individual retail and small business customer complaints, disputes and litigation in Australia.<sup>4</sup> These principles have informed the complaint awareness training undertaken by staff across the Australia Retail &amp; Commercial division.</p> <p>In addition, in December 2020 we published our 'ANZ Complaint Guide' for customers on anz.com.<sup>5</sup> We have made this guide available in a number of languages so that it is accessible to our non-English speaking customers.</p> |

<sup>4</sup> Refer <https://www.anz.com.au/content/dam/anzcomau/pdf/dispute-resolution-principles.pdf>

<sup>5</sup> Refer <https://www.anz.com.au/content/dam/anzcomau/documents/pdf/support/complaints/anz-complaint-guide-en.pdf>

| Action   | Rationale  | Where we are up to   |
|--|--|--|
| <p>14. Commit to the Australian Financial Complaints Authority's 'look back'</p>   | <p>The Government's response to Commissioner Hayne's <b>recommendation 7.1</b> required AFCA to consider disputes dating back to 1 January 2008.</p>   | <p>We completed this commitment by establishing a dedicated team responsible for investigating legacy complaints lodged with AFCA.</p> <p>AFCA closed its legacy program to new complaints on 30 June 2020.</p>      |
| <p><b>Financial advice</b></p>   |  |  |
| <p>15. Focus on how we provide ongoing financial advice to customers so they always get the service they pay for and value</p> | <p>Commissioner Hayne's <b>recommendation 2.1</b> was for several changes to the law concerning ongoing fee arrangements in response to the "fees for no service" failures</p>   | <p>We have completed this commitment. Following the enactment of the <i>Financial Sector Reform (Hayne Royal Commission Response No. 2) Act 2021</i> (Cth), all requirements were in place prior to 1 July 2021.</p> |
| <p>16. Tell our customers in writing of areas where our financial advisors may not be independent, impartial or unbiased</p>   | <p>Commissioner Hayne's <b>recommendation 2.2</b> was that the law be changed to require personal financial advisors to give clients a written statement explaining simply and concisely why the adviser is not independent, impartial and unbiased (if that is the case).</p> | <p>We completed this commitment by amending our disclosure documents to advise our customers where our financial advisors may not be independent, impartial or unbiased.</p>   |

## CHART 1: PROGRESS WITH ROYAL COMMISSION RECOMMENDATIONS

### Overall

- Forty-one of the Royal Commission’s 76 recommendations are assessed as directly applicable to ANZ. Of these, we have completed actions relevant to eleven recommendations, including the four directed at banks for direct implementation. Work relevant to 13 recommendations is underway. The remaining 17 recommendations require actions by Government or the ABA before we take any further steps.

### Work underway

- The 13 recommendations on which work is underway are primarily addressed through the *Financial Sector Reform (Hayne Royal Commission Response) Act 2020* (Cth). These include:
  - Recommendations 3.4 and 4.1, which concern hawking of financial products;
  - Recommendations 1.6 and 2.7, which concern reference checking for mortgage brokers and financial advisors; and
  - Recommendations 2.8 and 7.2, which concern breach reporting.

The commencement dates of these reforms set by Parliament are in October 2021.

- We are also working to implement APRA’s response to recommendations 5.1, 5.2 and 5.3. This response is contained in the recently finalised *Prudential Standard CPS 511 Remuneration*. For ANZ, this standard will commence on 1 January 2023.

### External Action Needed

- The 17 recommendations that require action by external parties relate to various matters. These include:
  - Recommendations 1.3, 1.4, 2.3, 2.6, 7.3 and 7.4, which all involve further Governmental reviews
  - Recommendation 1.16, which concerns the ABA identifying

enforceable provisions of the Banking Code of Practice

- Recommendations 1.17, 6.6, 6.7 and 6.8, which concern reforms to the BEAR that will be effected through the FAR
  - Recommendation 7.1, which concerns the establishment of a compensation scheme of last resort
- Of these 17 recommendations, we have taken independent action to respond to recommendation 1.11 (concerning farm debt mediation). This is covered in our commitment 4.3, discussed above.

### Status of ANZ Response

