Response of Westpac Banking Corporation

Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

29 January 2018

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Part A. Preliminary Comments

Westpac Banking Corporation appreciates the opportunity to respond to the Commissioner's questions dated 15 December 2017 (**Request**). This response is made jointly on behalf of Westpac and all of its subsidiaries and divisions which offer financial services in Australia (**Westpac**). Westpac is committed to providing full and frank assistance to the Royal Commission in its inquiry.

As will be evident to the Commission, many of the issues identified in this response reflect areas where our conduct has not or may not have met existing regulatory standards. In addition, Westpac strives to meet increasing regulatory and community expectations. In light of this, and in order to assist the Commission's understanding of Westpac's response to the questions raised, Westpac provides some short context about the Westpac Group and a brief outline of the relevant Westpac framework for preventing and dealing with conduct issues.

Westpac serves 10.8 million customers in Australia through the provision of consumer, business and institutional banking services, wealth management, wealth administration and insurance services. At 30 September 2017, Westpac had $427 billion of Australian home loans and $151 billion in Australian business loans, paid $6.3 billion in dividends to 630,000 retail and institutional shareholders, and paid $3.5 billion in tax. More than 35,000 people work for Westpac.

Westpac comprises a number of businesses of significant scale in their own right. Our response to the Commission's questions are generally organised by reference to these businesses:

- **Consumer Bank** serves around 9 million retail customers in Australia under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands. It offers an extensive network of 1,029 branches, third party distributors, call centres and 3,879 automated teller machines (**ATM**);
- **Business Bank** is responsible for meeting the financial needs of micro, small to medium enterprise and commercial business customers in Australia. It provides for lending needs typically up to $150 million and operates under the Westpac, St.George, BankSA, Bank of Melbourne and Capital Finance Australia brands;
- **BT Financial Group (Australia)** (**BTFG**) provides customers with a range of wealth services, including investment, superannuation and retirement income products, investment platforms, financial advice, private banking and insurance solutions; and
- **Westpac Institutional Bank** (**WIB**) provides financial products and services to corporate, institutional, retail and government customers. WIB operates through dedicated industry relationship and specialist product teams, with expert knowledge in transactional banking, trade, financial and debt capital markets, specialised capital, and alternative investment solutions.

Given Westpac's size and scale, the complexity of our business and the multiple rules and regulations governing our business, things can and do go wrong and misconduct does occur. Westpac does not tolerate misconduct and is continuously engaged in improving its systems and processes to prevent, detect and address misconduct. Shifting regulatory requirements, community standards and expectations, and the nature of the banking business, mean that the process of improvement is a continual work in progress. While prevention has always been a part of our approach, we are increasingly focused on this aspect of our governance, including learning from things that go wrong. We recognise that we have more to do to improve the way we go about this.

To avoid repetition throughout the response, we outline below some key aspects of Westpac's evolving framework to best prevent and deal with misconduct.

a. Westpac's Vision, Values and Code of Conduct

Westpac's vision is '*To be one of the world's great service companies, helping our customers, communities and people to prosper and grow*'. A set of five values – Integrity, Service, One Team, Courage and Achievement – is continuously communicated and reinforced to all staff as the basis for our approach to business and the way we make decisions. The Westpac Code of Conduct (**Code**) outlines in detail how we expect our people to act, and applies to all management and staff. The Code incorporates the principles of the Banking & Finance Oath and is part of our contract with our people. The importance of the Code is reinforced to staff in numerous ways and failures to operate in accordance with the Code can have disciplinary and remuneration consequences for the staff members involved.

b. Behaviours and Culture

Westpac provides training and supervision of staff members to promote compliance-aware behaviours, in the context of an increasingly complex environment and rising community expectations. This includes initiatives designed to embed compliance capabilities and support staff members to raise customer, risk and compliance issues.

Westpac has a range of policies that govern the possible consequences that may arise out of risk and compliance matters, including breaches or potential breaches of the Code.[1] Under the Westpac Group Misconduct and Disciplinary Action Policy, staff member misconduct will result in a range of disciplinary actions including coaching, counselling, warnings or termination. In addition to disciplinary consequences, under the Westpac Group Remuneration Policy, a staff member who fails to comply with behaviour, risk management and compliance requirements, or fails to complete mandatory annual compliance and other role specific training, may be ineligible for a fixed pay increase and/or variable reward participation.

Westpac also has formal policies and procedures in support of staff members raising potential incidents, including a Whistleblower Protection Policy, a concern reporting system (**Concern Online**), a Whistleblower Hotline and a dedicated Whistleblower Protection Officer.

c. Incentives and Remuneration

Westpac is conscious that remuneration and incentives can have an important effect on employee conduct, and need to align with customer interests. In April 2017, Mr Stephen Sedgwick AO published a final report of the Independent Review of product sales commissions and product-based payments in retail banking in Australia. Westpac has committed to implementing all of the recommendations (many of which it had already commenced) by the 2020 deadline and sees it as an important area for restoring trust in the industry.

Westpac has already made significant changes to align frontline staff incentives with good customer outcomes, and our remuneration strategy is designed to support appropriate risk culture and staff member conduct.

d. Taking Responsibility

Westpac seeks to 'get it right' for customers in the first instance and, where errors occur, to 'put it right', for our customers. Under our product lifecycle reviews and other processes, Westpac reviews and seeks to improve its products and services with the customer outcome in mind including proactively reviewing products, processes and policies on a regular basis to ensure they effectively serve customers' interests and operate consistently with Westpac's values. This approach has led to initiatives such as reducing everyday transaction fees on 'legacy' personal transaction accounts and simplifying packaged products and discounts. Where we uncover an issue, we are committed to fixing the problem and ensuring customers are not disadvantaged. A number of the issues contained in this response relate to product administration and operations, and we recognise we have more to do to provide consistently good customer outcomes.

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[1] The overarching policy document is the Westpac Code of Conduct, which sets out the standard of conduct and expectations of all Westpac staff members. Staff member misconduct is also covered by the Westpac Group Misconduct and Disciplinary Action Policy dated 1 July 2017. This policy sets out a range of disciplinary actions which may be taken in response to misconduct, including counselling, warnings and termination.

e. Customer Complaints

Consistent with the Westpac vision and focus on service, Westpac has a strong focus on complaints resolution. The Westpac complaint management framework was reviewed and amended in 2016 to adopt a more customer-focused approach and we are always working to improve our complaints management processes, communication and standards. Westpac introduced a Customer Advocate in 2016 to further improve the customer experience in connection with complaints. The Customer Advocate is empowered to conduct independent reviews of internal decisions and can make binding decisions in matters up to $1 million.

As part of this complaint management process, complaint management teams and the Customer Advocate make a number of determinations about allegations of misconduct made by customers. In some cases, Westpac may assess its conduct as appropriate after a thorough review. In other cases, Westpac may identify misconduct requiring remediation. In all cases, Westpac seeks to act according to its vision and values in making these determinations, and to cooperate fully with external dispute resolution processes. The complaints team also provides ongoing feedback to business teams on root causes of issues and suggestions on how to prevent issues recurring. Westpac also sees this Commission as an opportunity to hear from our customers about their experiences and their concerns.

f. Westpac's Risk and Compliance Management System

Westpac operates a comprehensive risk and compliance management system. The Board of Westpac is ultimately responsible for approving the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement, which apply across the Westpac Group, and for monitoring the effectiveness of risk management of the Westpac Group. The CEO and Executive Team are responsible for developing and implementing Westpac's risk management strategy and frameworks, and for developing policies, controls, processes and procedures for identifying and managing risk in all of Westpac's activities.

Westpac has adopted a 'Three Lines of Defence' approach to risk and compliance management across the Westpac Group which is promoting a culture of compliance and transparency throughout the organisation. Westpac's Compliance Management Framework sets out our approach to managing compliance obligations and mitigating compliance risk in the context of shifting regulation and increasing regulatory and community expectations. Westpac's risk and compliance approach is more fully set out in Westpac's Corporate Governance Statement, available at https://www.westpac.com.au/about-westpac/westpac-group/corporate-governance/corporate-governance-overview.

Conclusion

Westpac's service and customer focused vision, together with the governance measures described above, are explicitly designed to deliver good customer outcomes and to meet the expectations of regulators and the community. We acknowledge that we have more work to do to consistently achieve these goals. Where things go wrong, we work to identify the cause of the issue and to respond in a way that reflects our vision and values. We are continually working to prevent misconduct, and detect and address misconduct when it occurs, in line with our service ethos and commitment to doing the right thing for our customers.

Part B. Issues Relating to Misconduct and Community Expectations

In this section, Westpac responds to the specific questions raised in the Request. Westpac's approach to the Request has been informed by some of the following considerations:

(a) As outlined above, Westpac is a very large business made up of a number of individual divisions which are significant businesses in their own right. The size and scale of the Westpac business is such that providing a response that identifies every matter that could constitute 'misconduct' (as that term is defined) or conduct falling below 'community expectations' has not been possible in the page limit available. Westpac has devoted considerable resources to ensuring the response addresses a broad range of conduct issues, along with examples of the various types of conduct presented, to assist the Commission in understanding the nature and scope of conduct issues identified.

(b) Westpac notes, however, that the types of conduct and the specific examples identified in this response are not a complete or exhaustive listing, given the scale of Westpac's businesses and the ten year time period covered by the request, as well as the page limit. The description of many of the issues identified in the response is relatively brief in accordance with the requested page limit, but is designed to give the Commission the information needed to understand its nature and substance.

(c) Under each area of conduct included, Westpac has sought to address the questions raised in the Request including providing specific cases or examples of matters which it believes fall within the categories set out in questions 1 and 2, and providing responses to the items requested in question 3. As noted above, the specific information provided in this section is supplemented by the material in Sections A and B that addresses steps taken to promote a strong governance regime and prevent recurrence of conduct of the types identified. Where possible the factors that contributed to the conduct occurring have been identified for the specific cases or examples.

(d) Given Westpac's desire to assist the Commission, Westpac has taken a broad reading of the questions and the information sought by the Commission. Westpac has sought to identify a wide range of issues so as to provide the Commission with as helpful a picture as possible. There is, however, a real difficulty in characterising some of the issues and examples mentioned as necessarily representing misconduct (given its broad definition in particular paragraph (d)).

(e) Similarly, identifying with any certainty what is and is not within the bounds of community standards and expectations is difficult given the inherently subjective nature of those concepts and their change over time. There is also real potential for overlap between the two concepts. Accordingly, in the interests of providing the Commission with a more comprehensive understanding of conduct issues affecting Westpac, for the areas of conduct and issues identified, Westpac indicates below whether it regards them as potentially falling within the bounds of question 1 or 2. However the inclusion of a type of conduct, issue or example in one or other category is not and should not be seen as an admission that the conduct in issue necessarily meets the criteria for inclusion in either category.

(f) Westpac has not sought to respond on behalf of Westpac-related entities in offshore jurisdictions who are not the subject of a notice, or offshore branches in relation to offshore conduct, given the terms of reference places emphasis on the Australian banking system and its impacts on Australians. If the Commission would like Westpac to respond by reference to its offshore related entities or branches please advise. Westpac has also not sought to respond on behalf of affiliated companies in respect of which it does not currently have a majority shareholding.

Westpac anticipates that once the Commission has had an opportunity to consider the response it will require further information and documents in respect of many of the issues and Westpac will assist in that regard.

Cultural or Governance Issues

In questions 3(b), (c) and (d) the Commission has asked Westpac to identify whether it attributes the conduct identified in response to either question 1 or 2 to culture, governance or other practices. In most instances it is difficult to ascribe the conduct in question to any one cause or cultural issue and in most cases it is likely that a range of issues will have contributed to the conduct in question. Nevertheless, Westpac has attempted to identify a number of broad cultural or governance themes which it considers may underpin the identified conduct issues. Westpac continues to work to address each theme and will seek the opportunity at an appropriate time to provide the Commission with information on those steps. In identifying conduct issues below and in the responses to question 3 Westpac refers to potential themes to which the conduct might be attributed. An explanation of those references is below:

1. *Our people failing to properly implement or follow policies or processes / insufficient control over the implementation of, or changes to, policy or process*

Many of the conduct issues that have affected Westpac's businesses over the period have occurred because processes or policies have not been adequately followed or implemented. In addition, in some cases, there have been differences in interpretation between Westpac and regulators as to what the regulation requires. Westpac acknowledges that it is necessary for it to continually look for ways to improve the quality of its policies and processes, training and detection measures and the culture of adhering to policies. That includes learning from instances where Westpac's policies are not followed and ensuring appropriate consequences follow.

2. *Unintended impacts on customers of Westpac's policies or processes*

On occasion, Westpac's policies or processes may not have adequately taken into account potential impacts on its customers. In addition, when Westpac changes policies or processes that are relevant to large numbers of customers, it may have given insufficient regard to how the change will affect all categories of customers. Westpac is continually seeking to improve and learn from errors of this kind and improve its policies and processes.

3. *Influence of remuneration and recognition frameworks*

Establishing the right balance in remuneration and recognition practices between supporting appropriate customer outcomes and risk management on the one hand, and strong operational and financial performance on the other, has been another constant challenge for the financial services industry. There have been instances where the conduct of some of Westpac's staff members demonstrates a prioritisation of their own personal remuneration over compliance with its values or policies and appropriate customer outcomes. Westpac acknowledges its responsibility to design and implement systems that appropriately balance those issues. Westpac has made considerable changes to its remuneration structures in recent years to ensure stronger weightings to behaviours and good customer outcomes, as well as further strengthening its use of risk and compliance measures including remuneration adjustment processes. Westpac anticipates that remuneration and recognition structures will be an issue of particular interest for the Commission and it looks forward to providing more detail and submissions on its approach in due course.

4. *Human error by either Westpac or by third parties*

Some of the instances of conduct identified in the response can be attributed to simple human error, such as failing to check or do something or make a proper calculation. Where human error causes issues affecting large numbers of customers Westpac accepts that often more could have been done to prevent the error and that, in part, informs its increasing emphasis on seeking to build prevention into its systems. Westpac also acknowledges that there have been instances where it could have done more to avoid mistakes by third parties acting on its behalf and to seek to ensure they act consistently with Westpac's processes and values. It is Westpac's obligation to design systems and processes to prevent those kinds of issues where possible.

5. *Individual staff member dishonesty*

In some instances the conduct has occurred due to staff member dishonesty. Westpac is continually seeking to improve its systems and processes for identifying dishonest behaviour as well as its recruitment practices to respond to this risk.

Business Unit: Consumer Bank

Westpac's Consumer Bank provides services under the Westpac, St.George Bank (**St.George**), Bank of Melbourne (**BoM**), BankSA and RAMS brands to consumer customers in Australia. These services include home loans and credit cards. This section outlines examples of actual or potential misconduct or conduct that may fall below community standards and expectations that relate to the Consumer Bank. In this section, the response to question 1 addresses issues in relation to mortgage related and other staff member misconduct, credit cards, consumer credit insurance, process failures, and advertising and staff training. The response to question 2 addresses product administration (particularly fees and charges errors) and reverse mortgages.

Question 1 Issues

A. Mortgage Related and Other Staff Member Misconduct

Westpac's mortgage business comprises approximately 1.6 million home loan accounts. Westpac has experienced instances where the actions of staff members or external third party mortgage brokers relating to mortgage applications have amounted to misconduct and/or practices that fall below community standards and expectations. Such conduct includes the knowing acceptance of, or involvement in, the provision of false financial information or fabricated documentation relating to a customer's financial position in support of a loan application (including instances where customers were complicit in the fraud), and processing loans as a different type of loan to the customer's expectations. A substantial proportion of the mortgage applications received by Westpac are submitted by third party mortgage brokers, who act as agents for the borrowers in dealing with, and submitting documents to, the bank in connection with their mortgage application. Westpac acknowledges that one of its responsibilities is to ensure that it has effective and up to date systems in place to combat fraud and misconduct by staff or intermediaries, with a focus on continuing improvement of those systems. Examples of mortgage related and other staff misconduct are set out below.

Misconduct Relating to Mortgages

Marten Pudun and New Era Finance: In 2015, Westpac identified an issue with the conduct of Marten Pudun, a former Relationship Manager employed in the Westpac Premium banking division who processed a number of loans submitted by New Era Finance. An investigation by Westpac's Secured Lending Task Force (**SLTF**) found that between September 2013 and February 2016, Pudun failed to properly verify customers identities, provided false information and submitted forged documents in support of applications, and failed to make proper inquiries about customers' requirements, objectives and financial situations. Pudun also potentially breached customers' privacy by sharing their personal information, including temporary internet banking passwords, with a third party broker (this element of the conduct was disclosed to the Office of the Australian Information Commissioner (**OAIC**) on 19 July 2017). Westpac has identified 43 loans provided to 52 Westpac Premium customers which were processed by Pudun. Westpac has also identified 1,087 loans submitted by New Era Finance to Westpac in the period 2014 to 2015. Westpac's enquiries into New Era Finance are ongoing.

Westpac advised the Australian Securities and Investments Commission (**ASIC**) on 30 September 2016 and understands that an ASIC investigation into Pudun and New Era Finance has commenced and is ongoing. Pudun's employment with Westpac ceased in March 2016. Pudun has been referred to the police. Other staff members were also the subject of formal investigation concerning Pudun's activities and had their employment terminated. Westpac also terminated the accreditation of all known brokers associated with New Era Finance and stopped all loans in the approval stage submitted by New Era Finance. Letters have been sent to certain Westpac Premium customers seeking information and Westpac has attempted to contact customers whose internet and banking passwords may have been affected and taken other measures to ensure that those customers' security is not compromised. The process of identifying affected customers is ongoing.

Westpac has implemented a number of policy changes since the Pudun matter was identified, including the introduction of a two factor authentication system called SMS Protect and a data leakage program. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributed to individual staff member dishonesty and failure to follow policies or processes.

David St Pierre: In 2010, Westpac identified irregularities in home loans submitted for approval by David St Pierre, a Home Finance Manager (**HFM**) employed by Westpac. Between 2008 and 2010, St Pierre had assisted approximately 20 customers to borrow funds from Westpac against their family homes to invest in a property development scheme operated by Capital Growth International Club Pty Ltd (**CGIC**). CGIC collapsed in February 2011 and was placed in liquidation.

St. Pierre's conduct was the subject of internal investigations in 2010 and 2011. St Pierre resigned from Westpac in 2011. In August 2012, the matter was raised in a parliamentary inquiry. Westpac subsequently engaged with ASIC in relation to the issue and ASIC carried out an investigation, which found that St Pierre had knowingly submitted loan applications supported by false documents and information, failed to prepare an authority that accurately identified the payee of a cheque (with the result that a customer cheque for $215,000 was paid into the personal trading account of a non-office holder of CGIC) and received financial advantage in the form of cash from CGIC. Westpac continued to engage with ASIC in the investigation and prosecution of St Pierre.

On 8 April 2013, ASIC raised concerns about the systems, policies and procedures for approving loan applications that Westpac had in place at the time of the alleged misconduct, particularly in relation to elderly customers and borrowers without a proven income stream. Westpac advised ASIC that its systems, policies and procedures met the legislative and regulatory framework in place at the time (prior to the *National Consumer Credit Protection Act 2009* (Cth) (**NCCP Act**)) and that Westpac had taken steps to further strengthen them. On 5 August 2013, ASIC acknowledged that Westpac had taken steps to minimise the risk of similar issues reoccurring and advised that it would not be making any further enquiries or comments about Westpac's systems for assessing and approving loan applications, as part of the ongoing St Pierre investigation.

Westpac has fully compensated all CGIC investors who borrowed from Westpac that were affected by St Pierre's conduct and paid for their independent legal costs. Westpac has also compensated seven CGIC investors who did not borrow funds from Westpac, but claimed to have had some direct contact with St Pierre before making their investment in CGIC. Westpac has paid approximately $8.74 million in compensation to date. St Pierre was permanently banned by ASIC in 2014 from engaging in credit activities and providing financial services. Criminal proceedings were commenced against him and on 8 February 2017 he was sentenced to 3 years jail. Brad Silver, the director of CGIC, has also been charged with fraud. Westpac is not aware of the issue being the subject of any current civil or criminal proceedings against Westpac. In further response to questions 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributed to individual staff member dishonesty and failure to follow policies or processes.

Since 2011, Westpac has significantly tightened its income and asset verification processes serviceability assessment criteria and can provide further details of those measures on request. Westpac has also introduced a mandatory fraud focus awareness and detection skills program for bank managers and HFMs. The steps taken by Westpac since the St Pierre incidents occurred have improved Westpac's prevention, detection and processing of misconduct issues arising from mortgage application fraud. While prevention has always been a part of Westpac's approach, including learning from past incidents, Westpac acknowledges that more can always be done to build systems to prevent such issues from occurring, as well as detecting them.

X-Finance: In February 2016, Westpac identified that X-Finance, a third party broker firm, had submitted a number of loan applications to Westpac containing false information relating to foreign income, employment and bank accounts between January 2015 and February 2016. On the information available to Westpac, for most of the customers it appears they were unaware that X-Finance had done so. At the time the alleged fraud was identified there were 696 loans in the X-Finance portfolio. Westpac established a team to review and remediate any deficiencies with X-Finance originated loans. Customers who could be contacted either paid out or refinanced their loans or had their loans re-originated with Westpac.[2] For customers who could not be contacted, or were unwilling to provide Westpac with the necessary information, Westpac has been monitoring their loans for any sustained

[2] In this response, we have used the term "remediate" in the broad sense, to cover steps or action (including the payment of compensation) that we have taken to remedy any impact on customers and clients.

arrears or hardship. Westpac advised ASIC and the Australian Prudential Regulation Authority (**APRA**) in February 2016 and engaged with ASIC and APRA in relation to the investigation.

Following identification of the X-Finance matter, Westpac established a foreign income verification team with Mandarin and Cantonese language capabilities, tightened credit policies for overseas lending, tightened income and employment verification processes for all foreign income loans, tightened credit policies, including withdrawing from non-resident lending and reducing maximum loan to value ratios (**LVR**) on expatriate foreign income loans, terminated all pipeline applications for X-Finance and loaded these applications onto a fraud detection system, strengthened fraud scans and alerts and revoked the accreditation of all brokers associated with X-Finance.

In 2017, Westpac provided documents to ASIC in response to notices issued in relation to this issue, including in relation to a former Westpac staff member. Westpac understands ASIC's investigation is ongoing. Westpac is not aware of the issue being the subject of any past or current civil proceedings against Westpac. In further response to question 3 (b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributed to individual dishonesty and failure to follow policies or processes.

Andrew McClure / Money Choice: In 2011, RAMS disaccredited Andrew McClure, a staff member of a RAMS franchise, following an investigation into the use of falsified accountant's letters submitted by him in support of loan applications. In October 2012 and February 2013, ASIC requested information from RAMS in relation to seven files referred by third party broker Money Choice to McClure. ASIC's investigations found that McClure submitted false accountant's letters in support of loan applications and failed to verify documentation in support of three home loans referred to him by Money Choice in 2010 and four (non-Money Choice) home loans in 2011. On 30 April 2014, ASIC banned McClure from engaging in credit activities for five years.

RAMS has established a team to conduct a further comprehensive review of the relevant files. That investigation is ongoing, and will include remediation where appropriate. It is not known if ASIC is continuing to investigate the matter. Westpac is not aware of the issue being the subject of any current investigation or any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to individual dishonesty and failure to follow policies or processes.

John Bazouni: In approximately 2013, Westpac began looking into a former St.George staff member, Bazouni, who had processed a number of loan applications which potentially included false information. Westpac was also concerned that some of the loans were referred by an individual subject to a lifetime ban by ASIC and that the loans were falsely coded to conceal that fact. Westpac advised ASIC about this matter in March 2016. Westpac also referred Bazouni to the police. As there are ongoing criminal proceedings relating to this matter, Westpac does not propose to provide more detailed information at this time unless specifically requested. It is not known whether ASIC is conducting any further inquiries.

In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to individual dishonesty and failure to follow policies or processes. Westpac continues to monitor issues relating to home loans processes, and where deficiencies in systems and processes are identified the focus is on adjusting them to better prevent and detect misconduct. Since 2016, Westpac has implemented an enhanced lender outlier report to allow early detection of any unusual lender trends, and launched the Referrer Framework which outlines the requirements for referrer accreditations, management and monitoring. Continual adjustments are made to Westpac's monitoring and prevention systems, as part of a dynamic process to evolve control to meet different types of conduct.

Graeme Holm: In 2010, Westpac identified that Holm, a former Westpac Bank Manager and Mobile Lending Manager, had been referred approximately 166 loan applications by Sunpac Finance Limited (**Sunpac**). In or around 2010, Holm processed over 100 loan applications from Sunpac (intended to be self-managed super fund (**SMSF**) referrals) as customer loans. Doing so resulted in a financial benefit to Holm. An internal investigation revealed other misconduct issues, including the incorrect processing of loans referred by Sunpac that may not have been compliant with the *Superannuation Industry (Supervision) Act 1993* (**SIS Act**). Holm's employment with Westpac ceased in September 2010.

Westpac identified approximately 66 customers who were potentially affected by Holm's conduct. In late 2010, Westpac established a remediation process to re-document the affected loans so that they were SIS Act compliant. Subsequently, Westpac assisted ASIC in its investigations into Holm and in relation to Sunpac / Heritage (see below). Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3 (b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributed to individual dishonesty and inappropriate prioritisation of remuneration consequences and failure to follow established policies or processes.

Sunpac Finance Corporation / Heritage Financial Services Group (Heritage): In 2013, ASIC commenced an investigation into the conduct of Sunpac/Heritage. In the course of that investigation it became apparent that Sunpac/Heritage had also referred customers to RAMS, with similar issues to those referred to Westpac. RAMS has identified 127 affected loan files for 118 customers that were processed as consumer investment loans but may have been intended as SMSF loans in the period 2009 to 2013.

Since October 2016, RAMS has, with input from ASIC and the Australian Taxation Office (**ATO**), conducted a customer engagement and remediation program. The program included offering assistance to affected customers, rectifying their loan structures if they were intended to be for an SMSF and paying the costs of independent legal advice. RAMS has written to all affected customers with undischarged loans and expects to have completed remediation by September 2018. RAMS has changed its loan application and Customer Needs Review forms to expressly exclude SMSF investment purpose loan applications. Westpac continues to monitor issues relating to Sunpac/Heritage and provide ASIC with updates on progress in providing assistance to customers affected by Sunpac/Heritage's conduct. ASIC has cancelled Heritage's Australian Credit Licence (**ACL**). Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3 (b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributed to individual dishonesty and failure to follow policies or processes.

Gold Coast Central / United Finance: In late 2016, RAMS identified and began investigating issues with loans referred to the RAMS Gold Coast Central (**RGCC**) by United Finance Solutions Pty Ltd (**United Finance**). It appears that RGCC and its principal had made false representations to RAMS as to the substance of financing conversations held with customers. RAMS also identified possible use of customers' SMSF funds by United Finance in contravention of superannuation legislation and other irregularities.

Westpac advised ASIC on 26 July 2017. RAMS permanently revoked the loan writer's credit representative authority, terminated its arrangements with RGCC and its principal, and permanently revoked their respective credit representative authorities. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributed to individual dishonesty and failure to follow policies or processes. RAMS is still carrying out work to identify the customers affected by the conduct of United Finance or RGCC and what remediation is necessary. RAMS is currently monitoring 38 active loans referred to RGCC by United Finance.

Westpac recognises that although the examples of conduct set out above relate to misconduct by individuals, it is Westpac's responsibility to have effective systems in place to ensure the prevention of such misconduct and where it does occur, to detect it quickly and address the issue, making appropriate system and process changes.

In 2015, Westpac established the SLTF to detect and manage the investigation and resolution of issues identified with secured lending matters. The SLTF's role includes helping identify problems at the loan application stage, improving Westpac's ability to reduce the ongoing customer and financial impact where fraud has been detected, identifying gaps in the control framework and recommending improvements to controls. Since the establishment of the SLTF in 2015, over 400 investigations have been undertaken.

Westpac has also established a Mortgage Conduct Risk Forum, which meets to discuss emerging risks and significant incidents in the area of mortgage conduct and address specific issues concerning potentially fraudulent home loan applications or potentially inappropriate associations with brokers and referrers. Westpac has also established a Consumer Bank Home Loan Referrer Framework and Referrer Advisory Forum to manage external third party referrers. ASIC has recently advised Westpac that it is initiating an industry-wide investigation into loan application fraud, secured and unsecured loans through all channels, to report by September 2018.

Other Examples of Serious Misconduct

Westpac has identified other instances where a Westpac staff member has engaged in serious misconduct which falls below community standards and which may constitute a breach of Westpac's obligations as a financial services licensee. These include:

Simulated Account Funding: In November 2015, Westpac identified incidents of staff engaging in conduct to simulate the creation and activation of new accounts to artificially inflate metrics used to calculate their variable rewards. In particular the conduct involved simulating the deposits and withdrawals of $50 to suggest that accounts were 'active'. An internal investigation identified a number of instances of simulated account funding between January 2013 and December 2016, which resulted in the termination of a number of staff together with other disciplinary measures. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to inappropriate prioritisation by the staff member of their own remuneration over compliance with bank policy.

Although this is conduct by individual staff members, Westpac recognises its responsibility to have in place both system controls which are effective, and reward and recognition systems which support appropriate behaviour amongst staff members and provide outcomes in the interests of customers. Westpac has implemented revised scorecards, including an increase in the minimum deposit required for the purposes of proving activation of the customer accounts in scorecards, and an increased focus on monitoring for these types of behaviours with outlier reporting. No negative customer impacts were identified as a part of the investigation. This matter was also considered in an independent review.

Incorrect Recording of Next Best Offers: In March 2017, Westpac identified that some bankers in the customer contact centre were incorrectly recording in the system that a 'Next Best Offer' (**NBO**) had been actioned with the customer. Actioning NBOs constituted a gate opener on the banker's incentive scorecard. Recoding an NBO resulted in no further action and had no customer impact. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to inappropriate prioritisation by the staff member of their own remuneration over compliance with bank policy. Westpac has subsequently removed the NBO gate opener from the incentive scorecard, refreshed the NBO process maps and executed a communications plan around 'doing the right thing' for the customer.

Westpac is also actively engaged in ongoing review and improvements to its remuneration and recognition practices, both in design and implementation. Changes have been made to provide stronger weightings to positive behaviours and good customer outcomes, as well as further strengthening the use of risk and compliance measures including remuneration adjustment processes. These changes have been informed by Westpac's ongoing learnings about the influence remuneration has on culture and behaviours from industry and regulator initiated reviews, and from responding to individual incidents.

Other Sales Practices

For products other than mortgages, at the request of ASIC Westpac in November 2016 had an independent review of sales practices undertaken relating to consumer credit insurance (**CCI**), credit cards and deposit products in the period 2014 to 2016, with a view to ascertaining whether Westpac had experienced misconduct similar to that which occurred in relation to Wells Fargo in the United States. The independent report dated 31 March 2017, concluded that '*nothing has come to our attention that would cause us to believe Wells Fargo type misconduct may have occurred in the course of the selling of in scope retail banking products in the period from 1 January 2014 to 31 December 2016.*' The review found that account and product on-boarding and activation activities were operating as documented, and instances of misconduct appeared to be isolated. The report said that Westpac had undertaken actions to put in place monitoring mechanisms and controls to manage the identified issues, and had processes in place for managing individuals who perpetrate misconduct. Westpac is continuing to work on these systems and is engaged in continual improvement in this area.

Other issues in sales practices have arisen from time to time, but to Westpac's knowledge these are not systemic and do not change the view expressed above in relation to Wells Fargo issues. Examples include misconduct by staff in relation to fraud breaches by personal bankers in connection with personal loan applications, or issues in relation to inappropriate staff behaviour in connection with insurance referrals for motor, travel and business insurance. In such cases, disciplinary action is taken and monitoring mechanisms and controls or other work is carried out to address the issues.

Westpac also has systems in place, such as mystery shopping, which allow the monitoring of in-branch sales practices. Over the course of the period the Commission is considering, such processes will have, from time to time, identified people and branches where procedures have not been followed or a service or advice has been provided in a way which is inconsistent with legal or policy obligations. It remains an ongoing challenge for Westpac to fully and consistently embed its various advice models and required approaches across every branch.

Westpac also engages directly with its staff members, through reviews and surveys, in order to better understand its staff members' attitudes about how it operates, and their attitudes and sentiments about the business. Westpac puts an emphasis on trying to actively build a strong positive culture within the business, which is critical to ensuring appropriate sales practices.

Further Information on Question 3(e)

Remediation

In addition to the steps outlined in each circumstance above, Westpac is committed to providing remediation and, where appropriate, compensation to any customer who suffers detriment or loss from the misconduct of any Westpac staff member. In 2017, Westpac established a home loan Sales Practices Remediation Unit to focus on addressing the potential impact to customers of misconduct by terminated lenders and third party brokers. It is responsible for all aspects of sales practice related remediation activity and is staffed by experienced relationship managers and credit officers. The unit has a remediation framework to ensure accuracy, adequacy, consistency and fairness of remediation activity performed. Westpac also has a Product Remediation team to assist customers who have experienced product issues arising from conduct such as unclear disclosures, system errors, inconsistent processes or compliance breaches. The team focuses on compensating customers for misconduct or errors causing loss, and has a mandate to implement root cause resolution and future proofing to prevent issues from reoccurring.

B. Credit Cards

Bank-initiated Credit Card Limit Increases

In September 2012, ASIC raised concerns with the Australian Bankers' Association (**ABA**) (and other industry associations) regarding different credit limit increase practices and expressed the view that Responsible Lending obligations required banks to consider, among other things, the current income and employment status of prospective recipients of credit increases. Through an industry survey in January 2014 and notices issued from August 2014 onwards, ASIC sought and Westpac provided information and documents regarding its credit limit increase processes. Westpac informed ASIC that, in its view, its processes satisfied its responsible lending obligations. ASIC raised specific issues with Westpac about its automated responsible lending processes, in use from 2012 to 2014, and suggested that they may not have been adequately taking income and employment factors into account. Approximately 6,600 accounts were affected by this automated approval process. In December 2014, Westpac temporarily suspended credit limit increase invitations until it had implemented changes to its processes. Customer-initiated credit limit increase applications continue to operate.

Throughout 2015, Westpac engaged with ASIC about resolving its concerns in a way which would remediate any affected customers now facing financial difficulty. This matter was finalised with ASIC, and it is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. Draft legislation is currently before Parliament, which removes the informed consent requirement and in effect prohibits unsolicited credit limit increase invitations.[3]

In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to differing interpretations as to regulatory requirements. In December 2015, Westpac's remediation proposal was accepted by ASIC. Westpac accepted that bank-initiated

[3] *Treasury Laws Amendment (Banking Measures No. 1) Bill 2017* (Cth).

credit card limit increases could have been handled better and agreed to change its practices. Westpac engaged in a remediation program involving customer refunds and write-offs of around $11 million and contributing $1 million over four years to support financial counselling and literacy.

'Starts Low, Stays Low' Credit Card

In 2015, Westpac identified that it had applied interest rates to the now grandparented Starts Low Stays Low (**SLSL**) card outside of the lowest quartile in the market, which was inconsistent with an enforceable undertaking to monitor it and keep it in the lowest quartile.

The SLSL credit card, originally offered by St.George before it merged with Westpac, promised a low interest rate, with a 55 day interest free period. Promotional material said the card's interest rate was 'guaranteed to stay low'. The offer documents and Conditions of Use did not provide such a guarantee and permitted changes to the interest rate at any time. In April 2003, ASIC raised the issue with St.George. At that time St.George had been complying with the guarantee in relation to the product and intended to continue to meet the guarantee. St.George provided an enforceable undertaking to ASIC to confirm this commitment in relation to the product.

St.George ceased to offer the product to new customers in 2009, but retained the product for legacy customers. In 2015, Westpac identified the application of interest rates outside the lowest quartile, which was inconsistent with the enforceable undertaking. Westpac conducted a review of interest rates which demonstrated that the Cash Advance Interest Rate had remained within the lowest quartile but the Purchase Interest Rate had been outside the lowest quartile from November 2012 to June 2015. The review also found that in 2013, the issue was identified but was not escalated at that time in accordance with Westpac's procedures. Approximately 67,000 customers were affected.

In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of process. Westpac advised ASIC of this issue in June 2015 and liaised with ASIC following that disclosure. This matter has been resolved with ASIC, and Westpac is not aware of ASIC conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac, other than the enforceable undertaking and ASIC involvement. Westpac has provided remediation for affected customers totalling $2.1 million. Westpac has also developed and advised ASIC of a methodology for ongoing monitoring of the product to ensure compliance with the enforceable undertaking. The SLSL card has since been closed and St.George has migrated remaining customers to an alternative product. On 22 August 2017, ASIC confirmed to Westpac that it had no other enquiries about the SLSL.

Dual Promotion with Balance Transfer

In September 2015, Westpac identified an issue in relation to its balance transfer and purchase rate promotional offers on certain Westpac and St.George credit cards in the period from February 2015 to February 2016. The promotion included 0% on Balance Transfers (**Transfer Plan**) for 16, 18 or 20 months from card application and 0% on purchases (**Promotional Purchase Plan**) for three months from card approval. Westpac identified that it was not always possible for customers to receive the benefits of the three month interest free period, because the three month period commenced upon card approval, not card receipt.

In addition, repayments applied to the Transfer Plan before the Promotional Purchase Plan, affecting approximately 25,000 customers' payments were used to pay down the Transfer Plan rather than the Promotional Purchase Plan during the three month purchase rate promotion. As a result, some customers had a higher purchase balance and a lower balance transfer balance than they ought to have had, and customers being potentially charged more interest on their purchases in the month after their purchase rate promotion ended. This issue occurred following credit card reforms in 2012 which impacted payment allocation and hierarchy. Under the new rule, where two promotional plans have the same interest rate, repayments were to be applied to the plan that commenced earlier. In Westpac's system the Promotional Purchase Plan commenced when the customer first made his or her first purchase on the card and the Transfer Plan commenced when the balance transfer was processed. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the changes to policy.

Westpac advised ASIC of the issue in February 2016. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. To redress this issue, impacted customers received an interest reimbursement and/or a Transfer Plan adjustment. Remediation involved repayments to affected customers totalling $544,688 and was completed in June 2017.

C. Consumer Credit Insurance

Westpac offers CCI to its customers who apply to take out personal loans and credit cards. CCI may help customers to meet their loan or credit card repayment obligations if they are unable to work due to sickness, injury, or involuntary loss of employment and may also pay the balance owing if they die.

Since 1 January 2008, there have been various regulatory reviews, both internationally and nationally, into matters relevant to CCI. In Australia, these reviews have resulted in increased regulatory and industry guidance. As a result, Westpac has proactively updated its practices in relation to the promotion and sale of CCI. Westpac provides regular reminders to customers that they have cover in place (for example, in credit card statements). In addition, annual reminders inform customers how to claim or how to cancel the cover should they no longer want it. Westpac has controls designed to ensure that only customers eligible to claim on CCI purchase those products. After a recent review Westpac has decided that it will no longer offer CCI in its branches and call centres and it will only be available online.

Customer Consent and Awareness

The independent review of sales practices carried out by an independent advisory firm in 2016 and 2017 considered CCI sales practices during the period 2014 to 2016. The Report noted that while *'Verbal consent for CCI products sold through branches is currently captured by bankers… the consumer provides no explicit verification or documentation to support that consent for the majority of CCI products sold'.* On 23 March 2017, Westpac implemented measures to ensure that written authorisation is provided by the customer and a second day review of all CCI sales is undertaken.

Westpac is committed to ensuring that its CCI products meet its customers' needs, that customers are aware of the key features and benefits, limits and exclusions of cover before they apply for it and that customers are reminded of their right to claim and how to cancel their cover. Amongst other initiatives, Westpac has undertaken the following steps: in early 2017, Westpac wrote to approximately 183,000 customers with Westpac Credit Card Repayment Protection and Flexi Loan Repayment Protection insurance, reminding them that they hold CCI and informing them how to cancel it if they wished to do so. Approximately 350 calls were received from customers in response to the letter and refunds were provided to customers who no longer wanted the product; and in March 2017, Westpac also implemented measures to ensure that customers provided written requests for CCI cover acquired in branches and a second day review of all CCI sales was conducted. Westpac now includes messages on credit card and Westpac Flexi Loan statements and sends internet banking messages to maintain awareness of CCI. Westpac is not aware of this issue being the subject of any past or current civil or criminal proceedings against Westpac.

D. Process Failures

Interest Only Maturity

In early 2016, Westpac identified that a number of Westpac Variable Rate Home Loans, which had initially been interest only, had not switched to 'Principal, Interest and Fees' (**PIF**) at the conclusion of the agreed interest only term. As a result, some customers holding approximately 69,000 loans, would be subject to paying more interest over the life of their loans than they would have paid if their loans had switched to PIF at the agreed time.

Westpac advised ASIC on 15 July 2016. In response to this issue, Westpac implemented system solutions to correct the error; conducted extensive data analytics work and file level reviews, verified by an independent advisory firm, to identify potentially impacted customers; and engaged individual customers for the purpose of remediation. Westpac developed its remediation process for owner occupiers with residential loans in cooperation with ASIC and Westpac's Customer Advocate. That process involves refunding excess interest paid and/or discounting the interest rate for the balance of the loan term; informing customers of the error, and giving customers the opportunity to request assessment by a dedicated customer resolution team; and providing payment management where available. The expected cost for owner occupier remediation is $11 million, plus a discount of 21 basis points per annum for impacted customers. Westpac is actively monitoring complaints as loans are transitioned from interest only to principal, interest and fees. Westpac is continuing to work with ASIC in relation to its proposed remediation process for customers with investor loans. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. It is difficult to attribute the reason for any of the identified conduct to any particular internal or external cultural, governance or other practices. However, Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of processes.

Credit Card Cross Sell during Home Loan Application

In late 2015, St.George identified that the cross sell function within its credit card application system was being used to process and approve credit cards in circumstances that did not align with Westpac's Consumer Credit Policy. Customers of this product were aware that they had received the credit card. The cross sell function allowed the banker to utilise the serviceability assessment associated with a mortgage application for a credit card application. Where a comprehensive serviceability application was undertaken for a home loan and residual surplus income was identified, bankers were able to allocate an appropriate credit card limit for the customer. Issues with cross sell approvals were identified where:

(a) the customer was assigned a limit higher than that which the residual surplus under the mortgage application would allow;

(b) the serviceability assessment relied upon was more than 90 days old (which did not comply with the required 90 day limit for credit assessments); or

(c) there was no mortgage application that could be identified, indicating that potentially no serviceability assessment was undertaken.

Westpac undertook a comprehensive review of cross sell applications made from 15 November 2004 to 10 December 2015 to identify customers who may have been affected by this issue. Over that period 74,695 credit card and credit limit increase applications were processed through the cross sell function. 414 customers were determined to have been impacted by the issues relating to serviceability assessments. Westpac advised ASIC on 3 June 2016. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy.

Westpac's proposed remediation plan involves refunding interest and fees and contacting customers with active accounts to reassess what credit limit they can service (the applicable limit will then depend upon that serviceability assessment). Customers who may be left in immediate, short-term hardship as a result of any change in the limit will be managed on a case-by-case basis. Westpac is presently engaging with ASIC regarding the proposed remediation plan. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac.

Under 21 / Under 18 Accounts

In April 2013, through an internal review process Westpac identified issues in relation to the provision of account benefits to customers under the age of 21. Since 2007, Westpac has offered two accounts, *Choice* and *Reward Saver* with a sub-account classification for customers under 21 which entitle the account holder to have the monthly service fee waived or have no withdrawal fee or minimum deposit requirements. Until April 2013, in order for the benefits to be applied it was necessary for the branch or customer contact centre to manually apply the sub-account classification. During the period from May 2007 to September 2013, some customers under 21 did not have the sub-classification correctly applied to their accounts, which resulted in the fee waivers not being applied. This issue was identified through an internal review process and affected 133,045 accounts.

In August 2013, Westpac implemented a manual process to correct any new accounts opened and accounts opened in the prior three months were also reviewed for fees and/or interest due.

Since May 2007, St.George has offered the Complete Freedom Student account to customers under the age of 18 (under the age of 21 after November 2015). The account has no monthly service fee, unlike the standard Complete Freedom account which attracts a monthly service fee. In addition, until November 2015, the Complete Freedom Student account did not offer account holders free SMS alerts, whereas the Complete Freedom account did. In October 2015, Westpac identified that St.George Complete Freedom accounts were also affected, impacting 28,000 accounts.

Westpac advised ASIC in April and October 2015. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of process.

Westpac commenced remediation in September 2015, including the payment of interest on amounts refunded in accordance with Westpac's standard practice. St.George commenced remediation in November 2015, refunding fees charged to customers eligible for the Complete Freedom Student Account, again including interest. A total of $9.2 million has been remediated to Westpac and St.George customers. Westpac has instituted automated application of the relevant fee waivers based on the customer's date of birth submitted during the application process. Westpac also monitors this activity to ensure the correct treatment of eligible accounts. St.George will institute an automated application of the relevant fee waiver in February 2018.

CHOICE and eSaver Package Customers

The Consumer Banking Bundle (Choice and eSaver Package) was offered to customers in recognition of them holding a core group of banking products which provided them with an additional 10 basis points of interest paid monthly on their eSaver account. One of the core requirements for entry to the package was a customer initiated deposit of $2,000 per month. In May 2014, when the Westpac Live platform was launched, a change to transaction account codes resulted in the monthly deposit identification process being invalidated. Subsequently, the bonus interest was incorrectly not paid to eligible accounts. Westpac identified this issue in October 2015. In order to identify all potentially affected customers, Westpac reviewed all eligible customers from the period 2009 until 2015 who may have been affected during this time period, and as part of that review is assessing whether there are other issues in respect of the bundle that may need to be addressed.

In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of processes. Westpac advised ASIC in 2017. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. Refunds to the approximately 226,087 impacted customers are expected to cost $1.6 million. This is intended to occur in February 2018.

RAMS Package Fee

Following customer complaints in 2016, RAMS identified that a number of RAMS customers who have taken out a Value Advantage Package (**VAP**) have been incorrectly charged multiple annual package fees or did not receive variation fee waivers. Under the terms of the VAP, only one annual package fee is payable for all eligible loans within the package. Since the product was introduced in 2011, package fees were incorrectly charged in respect of loans within packages in 2,610 loan package accounts. The identified cohort did not receive the waiver of annual fees on subsequent home loans under the VAP, and a smaller subset did not receive variation fee waivers. The issues arose due to a breakdown of an automated process to identify eligible accounts, and breakdown in manual processes. RAMS advised ASIC on 21 December 2017.

In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of processes. RAMS is also amending the VAP terms and conditions to more clearly set out the applicable benefits, increasing controls to review all new VAP loans to ensure benefits and fees are applied appropriately, investigating automation of processes and procedures for VAPs to ensure that fees are not incorrectly charged and benefits are correctly applied and re-educating loan-writers on the benefits available to customers who have a VAP and how to apply these benefits.

Mistaken Closure of Accounts

In March 2016, Westpac identified that approximately 5,317 deposit accounts and over 380 credit card accounts were inadvertently closed between 1 and 6 March 2016. The issue arose after an out-of-date unclaimed monies system process was run for Westpac and St.George credit card accounts and St.George consumer and business deposit accounts. Accounts that had been inactive for at least three years were closed and any funds were transferred to internal accounts designated for unclaimed monies for remission to ASIC. As a result of legislative changes, only accounts that had been inactive for at least seven years should have been closed. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of process. Westpac advised ASIC on 23 March 2016. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. Westpac took steps to ensure the error would not reoccur and re-opened all affected accounts and credit cards and returned any funds back to them. On 6 April 2016, ASIC noted Westpac's remediation steps and advised it did not propose to make any further inquiries.

E. Misleading Advertising

Westpac has identified instances where promotional material it has distributed may have been insufficiently clear or potentially misleading. Examples are set out below.

Credit Card Limit Increase: From 1 July 2012, it became an offence under section 133BE of the NCCP Act to offer a credit limit increase to a customer who had not previously provided express consent to receive such invitations. In early 2012, in advance of the new provisions, Westpac contacted customers seeking their consent to continuing to receive invitations for credit limit increases. ASIC had concerns in relation to one of the messages which had been sent, and formed the view that the message was misleading as ASIC believed it created the impression that a customer had to consent to receive invitations to receive the full benefits of their credit card. About 3,700 customers had responded to that message, providing their consent. In response to ASIC's concern Westpac withdrew the communication and agreed not to rely on the consents received pursuant to the communication. Westpac is not aware of the issue being the subject of any current investigations or past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of new policy.

Westpac Annuity Deposit: In 2014, ASIC issued two infringement notices to Westpac alleging that between July 2013 and May 2014 Westpac had misled customers in marketing materials for its "Westpac Annuity Deposit" term-deposit product, including representing that the interest rate was calculated on the principal amount invested, in circumstances where the interest rate only applied to the balance of the principal which could reduce throughout the term of the investment. Westpac identified eight customers potentially affected by this issue. Westpac complied with the two ASIC infringement notices and paid a penalty of $20,400. Westpac also changed the name of the product, revised its marketing materials and implemented changes to internal processes to strengthen verification of the accuracy of marketing materials. Westpac is not aware of the issue being the subject of any current investigations or past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to failure to follow policy or process.

6 Month Pre-Approval: In 2013, St.George promoted a '*6 month pre-approval*' for loans with a disclaimer that if the loan had not been taken up in 90 days a reassessment of suitability would need to occur. This reassessment was a requirement of the NCCP Act. Following inquiries from ASIC, in June 2013, St.George will no longer refer to the 6-month period or '*pre-approval*' alone and has agreed appropriate words with ASIC. Westpac is not aware of the issue being the subject of any current investigations or past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy and process.

F. Staff Training

Westpac has identified gaps in training in some instances. Westpac has compliance plans and controls for each area of its business. The plans include mandatory training for staff relevant to their individual roles (profiles) in the Westpac Learning Management System (**LMS**). Training requirements are updated as required, for example, where legal obligations, policies, systems or processes may change. Westpac monitors compliance rates by staff with their training requirements. Training is an essential requirement for staff to complete and is monitored by their managers. Westpac's Conduct Risk Analytics team also run outlier reports to help identify sales of products where staff may not have been accredited to sell them or where their training is not up-to-date. Where an individual staff member undertakes an unaccredited sale, this may result in some form of consequence management.

Gaps can occur as a result of changes made to law and internal policies, following guidance from regulators, interpretation by Courts or inadvertent errors in the design of training materials. Depending on the incident, it may also result in a disclosure to the regulator and/or other remediation. Westpac has identified examples of instances where members of its staff may not have been adequately trained in relation to products or services below.

BT Super For Life Training Modules: In May 2015, Westpac identified that between November 2012 and 3 February 2014, three BT Super For Life (**BTSFL**) training modules had not been coded as mandatory in LMS for relevant Westpac retail sellers' profiles. Further modules were not recorded as mandatory for St.George branded bankers between 31 January 2015 and 6 May 2015 and for Westpac branded bankers between 28 April 2014 and 23 January 2015. Westpac advised ASIC on 29 May 2015. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy or process.

Westpac has subsequently changed its process and branch staff are now required to distribute BTSFL on a no advice basis and a 'no advice disclaimer' is provided to the customer. The process allows for the customer to be referred for an advice conversation. Westpac has sought to continuously and progressively improve its control environment for the sale of BTSFL in branches through updating online training modules and materials (including introducing ASIC Regulatory Guide 146 tier 2 training on the distinction between no advice and advice) and coding them as mandatory, issuing communications to branches reminding them of the requirement to give the appropriate advice warning and reporting any unaccredited sales made by a person who has not completed the requisite training.

CCI Training Modules: In June 2015, Westpac identified that some Westpac bankers had not been adequately trained in relation to CCI. A failure to code certain CCI training as mandatory resulted in some bankers in Westpac retail branches not completing the modules at the time of their introduction in September 2012, or subsequently. Westpac estimated that approximately 160 sellers of CCI products had not completed the requisite training, with 221 unaccredited sales identified. Westpac advised ASIC in August 2015. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy or process. In response to this issue, Westpac coded the CCI training and monitoring modules as mandatory, used unaccredited seller reporting to identify any sales where bankers had not completed the relevant training, and provided training and skilling sessions on advice and CCI respectively.

Question 2 Issues

A. Product Administration – Fees and Charges

Westpac has identified a number of instances where it mistakenly applied incorrect fees and charges.

Credit Card Foreign Transaction Fees: Customers have traditionally been able to use their credit cards whilst overseas or to purchase foreign goods through mail or over the phone. Credit card use to make overseas purchases has increased with the increase in online shopping. In March 2014, Westpac amended its terms and conditions for Westpac branded credit cards. The revised terms and conditions did not clearly state that a foreign transaction fee (**FTF**) would be charged for transactions where merchants were located overseas but the card was not present (e.g. internet transactions with foreign merchants), transactions in Australian dollars with financial institutions located overseas or transactions processed by an entity outside Australia. Following a number of customer complaints and related Financial Ombudsman Service (**FOS**) and Code Compliance Monitoring Committee (**CCMC**) interactions, Westpac initiated an internal review in relation to credit card FTF. Westpac had charged FTFs for these types of transactions even though the terms and conditions did not clearly state that these fees would be charged. Westpac advised ASIC of the FTF issue in October 2015. Westpac believed that the amended terms and conditions were capable of causing customer confusion and voluntarily decided to refund all FTFs charged to affected customers. Approximately $20 million was refunded to around 820,000 customers. ASIC has also indicated in September 2016 that it was working on the issue with industry participants. Westpac has now amended its credit card terms and conditions to clarify the circumstances in which FTFs may be charged. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy or process.

Westpac Choice eAccount Foreign Transaction Fees: Westpac has identified through a recent fee disclosure review that the terms and conditions for Westpac's Choice eAccount were incorrectly amended on 7 November 2011 to state that the FTF for debit card transactions was nil. However, the FTF continued to be applied to relevant transactions made with the linked Debit MasterCard and HandyCard, as had been disclosed in the previous terms and conditions. Westpac advised ASIC on 30 August 2017. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of process. The remediation will see repayments to customers completed by September 2018. Although final data analysis is still being completed, initial estimates indicate that 200,000 customers were impacted with an expected refund amount of approximately $6 million. Westpac advised customers of the changes to the terms and conditions to correct the issue in October 2017, with the changes effective from November 2017.

Visa Transactions Authorised without Usual Authorisation Processes: Westpac has identified an issue relating to the authorisation of Visa debit and credit card transactions. Between 31 January 2015 and 12 February 2015, St.George experienced an issue in its Online Delivery System (**ODS**), causing some Visa Debit and Credit Card transactions to be authorised without normal authorisation checks. As a result, customer account balances were not displayed correctly, Everyday Banking accounts were able to be overdrawn and associated fees and interest charges incurred, credit cards were allowed to exceed normal limits and additional over-limit fees and interest charges incurred and fraudulent activity that had already been notified and remediated for customers reoccurred. The incident was caused by a piece of coding within the ODS which incorrectly interpreted authorisation requests from merchants and ATMs. Approximately 1.2 million transactions were affected.

Westpac advised ASIC on 13 February 2015 and APRA and the Reserve Bank of Australia (**RBA**) were also advised. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In response to question 3 (b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of process. Following identification of the issue, Westpac established a customer remediation process. An initial IT solution was implemented on 11 February 2015 and a permanent solution on 13 February 2015. St.George gave customers three months to bring their overdrawn or overlimit accounts into balance, without being charged any overdrawn or over limit fees during this period, refunded any interest charged on the excess amounts during the period that accounts remained overlimit or overdrawn, for up to three months, assisted customers facing hardship to bring their accounts into balance through measured approaches from the Collections Team and refunded customers who were victims of third party fraud. Remediation was completed in May 2016, at a cost of approximately $3.3 million. Westpac also conducted a Post Incident Review and implemented a Proactive Risk Manager module to monitor all approved transactions independently of approval decisions by ODS.

B. Reverse Mortgages

Reverse Mortgages allow those approaching retirement to draw on their home equity as a source of cash flow in return for interest payments. Borrowers make no repayments during the term of the loan and the bank recovers the principal and interest from the sale of the home. This product was initially introduced by Advance Bank in the late 1980s and St.George in 2003. It enables customers with low cash flow to achieve a better retirement living standard over the remainder of their lives, by drawing on their home equity. This was also noted by the Productivity Commission in 2015. The compounding effect of making no repayments can over time result in borrowers holding less equity in their home than they anticipated. In 2013, increased regulation was introduced under the NCCP Act, and reverse mortgages remain the subject of ASIC review. Given the risk and complexity and the relatively low customer interest in or demand for the product, Westpac discontinued offering reverse mortgages from 1 July 2017. Westpac has not identified any breaches of law associated with reverse mortgages. ASIC is currently undertaking a review into reverse mortgages practices.

C. Storm Financial Class Action

In April 2013, class action proceedings were commenced against Westpac by former Storm Financial Limited (**Storm Financial**) customers who had mortgages with Westpac in April 2013. The proceedings were commenced on behalf of individuals who borrowed money, or increased their borrowings, from Westpac between 22 October 2004 and 31 October 2008 to invest in certain funds that were recommended by Storm Financial. The applicants and group members claim to have suffered loss and damage as a result of Storm Financial's breaches of contract and various misrepresentations. The applicants allege that Westpac, in turn, is liable for this loss. Westpac denies that it is liable for investors' losses. In December 2017, the class action against Westpac settled for approximately $7.5 million. This was a commercial settlement with no admission as to liability. Westpac reviewed its mortgages and margin lending to Storm Financial customers in 2009/10 after Storm Financial collapsed in early 2009. Westpac found that there were no significant or systemic breaches of its credit policies and processes. Westpac cooperated fully in ASIC's investigations and ASIC has not brought any proceedings against Westpac in relation to Storm Financial.

Business Unit: Business Bank

Westpac's Business Bank provides services to small-to-medium enterprises and commercial business customers in Australia, including specialist services for trade, automotive, equipment and property finance. This section outlines examples of actual or potential misconduct or conduct that may fall below community standards and expectations that relate to the Business Bank. The response to question 1 addresses issues identified relating to the provision of suitable products and responsible lending in relation to auto-finance for customers and compliance with the NCCP Act.

Question 1 Issues

A. Providing Suitable Products and Responsible Lending – Auto Finance for Consumers

As part of its auto finance business, Westpac provides multiple products including leases, fixed rate business and consumer loans and floor plan business loans to motor dealers. Retail and business customers can obtain car loans directly from Westpac or through motor dealers (**dealers**). Dealers are intermediaries who provide car loans without an ACL to retail customers under the 'point of sale' exemption in the NCCP Act. Dealers also sell insurance products as authorised representatives of the insurance provider to customers purchasing vehicles. Add-on insurance sold to customers at the point of sale can be financed through car loans. Westpac no longer sells any insurance through dealers, but does finance insurance sold by dealers at the point of sale.

Financing Add-on Insurance

Add-on insurance products include consumer credit insurance, mechanical breakdown insurance and life insurance, amongst others. Westpac has identified instances where it has financed insurance manufactured by third party insurers as part of a dealer-initiated car loan which was unsuitable for the customer. In one instance, in 2016 ASIC contacted Westpac about a customer who purchased a car on behalf of a de facto partner who was himself unable to obtain finance due to his poor credit history. Despite only being employed on a casual basis, the customer was sold insurance in the form of a Gapcover Policy and a Walkaway Policy by the dealer. These products were deemed to provide no cover or an unnecessarily high level of cover for the customer. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac.

In response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process by third parties. Westpac has implemented preventative controls to reduce the risk of financing of inappropriate add-on insurance within its business. In addition, post financing reviews are undertaken on populations of accounts which are considered to be higher risk for unsuitable products.[4] Westpac remediated this matter by waiving the remaining balance of the loan and taking steps to ensure the customer did not have a default listing with a credit reporting body. Westpac also undertook a review of loans originated by the dealer. This identified that approximately 1% of loans reviewed may have financed an unsuitable product. In August 2016, Westpac took significant steps to address the issues associated with add-on insurance for retail customers generally. Westpac implemented policies to cease financing consumer credit insurance containing a life insurance component, Gapcover insurance where the LVR was less than 75% and where add-on insurance premiums are above 25% of the asset value.

Flex Commission Arrangements

Flex commission arrangements allow dealers discretion in their negotiations with customers to determine the interest rate for a particular loan, with greater upfront commission from the lender on higher interest rates. The use of flex commissions is industry practice for lenders in the auto finance industry, including Westpac. Following various reviews between 2011 and 2013, ASIC considered that flex commissions operate unfairly because they can provide an incentive for intermediaries to increase the price of a credit contract and create a risk of unfairness for the customer. In March 2017, ASIC announced its intention

[4] Higher risk categories include casual employment, borrower age under 20, balloon payments >30% and LVR >150.

to formally ban flex commissions in the auto finance industry, with the legislative changes coming into effect in November 2018. Under this new regime, financiers can set rates and confer discretion on the dealer to discount that rate by up to 200 basis points for a particular customer. As the rate lowers, the dealer's commission will also lower. Westpac supports the action taken by ASIC, including the changes to the commission structure having previously unilaterally taken a decision to cap interest at a maximum rate of 16% in November 2015.

Provision of Auto Finance to Remote Indigenous Australians

ASIC raised concerns with Westpac in 2015 about the provision of auto loans to two indigenous customers in remote communities. Westpac considered that these loans were unsuitable for the customers and should not have been approved. The loans were entered into in around February 2010 and July 2012 by Capital Finance Australia Limited (**CFAL**) prior to it being acquired by Westpac in December 2013. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process by third parties. Westpac waived all amounts owing under the loans and ensured that neither customer had a default listing against their name in respect of the loans. Westpac has undertaken a review of a sample of regional accounts in a serious arrears position to identify any auto finance responsible lending issues.[5] Westpac also implemented a mandatory 'Code of Conduct and Customer Fairness Outcomes' training module for all dealers and guidelines to monitor customer fairness outcomes and procedures. It is not known whether ASIC is conducting any further enquiries.

Financing Tyre and Rim Insurance

Tyre and rim insurance has been recognised by ASIC as a low-value product, in respect of which a customer is likely to pay more, or marginally less, in premiums than they would ever be eligible to receive back in claims. In 2013, Westpac identified that between 2009 and May 2010 it had financed tyre and rim insurance policies which exceeded the twelve month maximum period stipulated in section 144(1) of the NCCP Act. Westpac provided refunds to approximately 5,480 customers (including 4,830 provided by CFAL). ASIC has not made any further inquiries of Westpac in relation to this matter. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process by third parties. This appears to have been a systemic issue within the industry as at least 15 financiers disclosed the same issue to ASIC following an industry wide review in 2013. As part of a remediation process, Westpac refunded over $3 million to affected customers.

B. National Consumer Credit Protection Act

Following Westpac's acquisition of CFAL in December 2013, CFAL's operations were integrated with St.George Auto Finance and its collections functions were transferred to a third party provider.

From March 2015 to June 2015, an issue with the third party provider resulted in CFAL failing to send default notices to approximately 9,100 customers as required by section 88 of the NCCP Act and subsequently repossessing approximately 100 vehicles which secured the relevant loans. In addition, during the same period, a further 1,409 notices were sent to customers and guarantors with a 'draft' watermark on the second and third page. The issue arose as a result of communication and processing errors. It was recognised by Westpac and disclosed to ASIC on 29 July 2015. Westpac paid 58 infringement notices totalling $493,000 in relation to this issue. Westpac has completed an extensive remediation plan. Where possible, the repossessed vehicles were returned. Customers whose cars had not been repossessed had any outstanding debt up to $10,000 automatically waived. If the loan had been paid in full, customers were refunded an amount equal to 3 months' of instalments. Steps were also taken to ensure affected customers were not listed as being in default with credit reporting bodies.

[5] The review identified 5 CFAL loans that matched these criteria. Westpac's internal investigation found that in 4 of these loans reasonable inquiries had been made as to the customers' financial situation and that reasonable steps had been taken to verify those details. It was found that the 5th loan required greater investigation into the customer's regular income. The debt was written off and PPSR over the vehicle was released. No default listing was made against the customer.

In the period March 2015 to September 2015, approximately 370 hardship applicants did not receive a 'Notice of Decision' from CFAL pursuant to section 72 of the NCCP Act. 12 vehicles were subsequently repossessed. Internal investigations revealed this issue was caused by the inactivity of a staff member of the third party collections provider who had failed to forward certain hardship applications to the group's auto finance collections team. This matter was initially disclosed to ASIC in December 2015. A remediation plan was completed which sought to restore affected customers to a position at least equal to the position they would have been in but for the issue occurring.

In further response to question 3(b), (c) and (d), in respect of the above two CFAL matters, Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process by third parties. In October 2017, ASIC advised that it had no further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac.

Responsible Lending – Auto Finance

In 2014, a customer brought a dispute before the FOS after having his car repossessed by CFAL in February that year. FOS made a recommendation that CFAL in its origination of the loan in 2011 had engaged in maladministration as it allowed the applicant to borrow more than the value of the car. FOS also found there was no evidence to suggest CFAL considered the applicant's requirements or objectives and that the loan was unsuitable for the customer. CFAL also failed to provide a suitability assessment for the applicant's loan when requested. FOS determined that CFAL had failed to comply with its responsible lending obligations.

In 2015, ASIC requested information from Westpac about car loans being offered by dealers based on advertising of "no deposit and no repayments until 2016". Specifically, ASIC queried whether the advertised credit product met responsible lending obligations under the NCCP Act, whether customers were paying more under the product when compared to a similar product not the subject of the offer and, if so, whether customers were aware of the additional costs. Westpac responded to the request noting: that additional acceptance criteria were applied to the loan; that customers were advised about costs and interest charges before and during the sales and settlement process; and that no customer complaints had been received in relation to the loans. In April 2016, ASIC advised they had no further queries on the matter. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process by third parties.

Auto Finance has a specific Responsible Lending Credit Policy in accordance with ASIC's RG209 requirements. The policy sets out income verification steps and activities. In 2017, a significant origination system upgrade was carried out to better ascertain and understand customers' requirements and financial situation. Dealers are now required to submit a range of responsible lending information associated with a customer's application before it can be submitted. Westpac also undertakes regular post financing reviews of up to 500 loans per month.

Business Unit: Consumer and Business Bank

Westpac provides a range of consumer and business products and is a significant credit provider in the Australian market. This section outlines examples of actual or potential misconduct or conduct that may fall below community standards and expectations that can arise in both the Consumer and Business Bank. The response to question 1 addresses issues identified in Westpac's lending practices and in particular, in the area of responsible lending. The response to question 2 then addresses issues in relation to product administration.

Question 1 Issues

A. Responsible Lending

The NCCP Act responsible lending requirements have been the subject of significant regulatory attention from ASIC since they came into effect for Authorised Deposit-taking Institutions in 2011. The original legislation does not impose prescriptive requirements, and has been supplemented by ASIC guidance, which has evolved and become more specific over time. APRA has also been actively monitoring consumer lending and has, in part, directed its focus to ensuring sound lending practices in the context of a competitive Australian banking market. Westpac has undertaken extensive work to address and implement its responsible lending obligations and to embed responsible lending practices into its culture, processes, systems and outcomes. Westpac will continue to evolve its credit practices with regard to internal policy settings, internal and external reviews undertaken from time to time and regulatory expectations.

Home Lending Issues - ASIC

Westpac is currently involved in proceedings in relation to aspects of its responsible lending obligations in which ASIC, following its 2015 industry wide review on interest-only home loans, alleges breaches of responsible lending obligations in respect of home loan contracts entered into from December 2011 to March 2015. Specifically, ASIC alleges Westpac failed to "properly assess whether borrowers could meet their repayment obligations before entering into home loan contracts". Westpac broadly understands ASIC's claims to be that Westpac did not conduct adequate 'unsuitability assessments' for certain home loans. Westpac is defending the proceedings. The matter is still in the pre-trial stages.

In June 2016, Westpac disclosed to ASIC that it had identified a number of issues with the practices of some of its authorised home lending bankers in that they were not correctly completing customer income and expense verification activities at the point of sale. Westpac has provided updates to ASIC concerning the steps being taken by it to reduce the error rate in its verification activities. In relation to question 3(a), it is not currently known whether ASIC is conducting any further enquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to a failure to follow established policies or processes.

Another issue of particular interest to ASIC, as well as APRA, in the area of responsible lending has been interest-only loans. APRA's interest has related to the proportion of interest-only loans and their serviceability. ASIC's interests have included the quality of communications, the suitability of interest-only loans in customers' particular circumstances and the level of customer understanding. Westpac has prepared and implemented specific policy and process changes in relation to interest-only loans to support communication to customers of the benefits and risks of interest-only loans and to better capture customers' rationale for selecting such loans.

Prudential Oversight - APRA

APRA has a significant regulatory interest in lending practices across the industry as part of its prudential oversight role. Westpac, like most industry participants, has a close and ongoing dialogue with APRA in relation to lending practices. Over the past six years, APRA has implemented a number of measures in relation to residential mortgage lending practices to ensure banking institutions maintain sound lending standards. APRA's stated objective is to ensure that lenders are making sound lending decisions which are appropriate, individually and in aggregate, in the context of the broader housing market and economic trends. Westpac has been engaging with APRA on a number of issues including, in recent times, interest rate buffers, high loan-to-value lending "hypothetical borrower - maximum borrowing limit" testing, borrowers reliant on foreign income, expense benchmarks and capital requirements. APRA has also shown particular interest in investor loans, interest-only loans, overall serviceability assessments, information collection on housing loan risk metrics, and stress-test scenarios involving a significant housing market downturn, issuing a Prudential Practice Guide on sound risk management practices for residential mortgage lending (APG 223) and conducting numerous borrower exercises to assess differences in lending standards between lenders and changes over time.

Westpac's engagement with APRA has been extensive and is continuing. For example, in 2016 APRA asked the large financial institutions, including Westpac, to instigate reviews of their mortgage portfolios covering the controls used to ensure completeness and accuracy of borrower financial information for the assessment of serviceability for residential mortgages. For Westpac, this review indicated that improvements were needed in areas such as documentation and record keeping, as well as the verification process. Westpac has been working to address these issues and has had ongoing engagement with APRA in respect of that program of work. In response to question 3(a), prudential oversight of responsible lending remains an area of very active continuing interest for APRA.

As noted above, the NCCP Act is not prescriptive and regulatory guidance on the topic has evolved over time. In that context, Westpac recognises that judgements need to be made in applying responsible lending principles in different situations. For example, historically, Westpac allowed certain existing home loan customers who met eligibility requirements, and who had an appropriate payment history, to borrow limited additional amounts based on their existing Westpac customer data and credit history without the need to provide further financial information. That approach was followed for 66,000 loans. Westpac has discontinued that practice and now requires financial information and verification in these circumstances.

Westpac has a strong record of credit performance in the area of residential loans, backed up by processes for proactive monitoring and management of customer hardship. Westpac recognises the need for enhanced controls for responsible lending, has developed a strategic roadmap to achieve sustained compliance, and has a substantial Responsible Lending Program to continue to strengthen and enhance its practices and control environment and to improve its documentation and record-keeping practices in respect of responsible lending. Westpac also continues to engage with ASIC on these and other responsible lending programs and improvements.

The NCCP Act responsible lending requirements apply not only to home loans but also to other types of consumer lending. For these products there is also scope for differences of interpretation as to the nature and extent of enquiries into and verification of a customer's financial position that are required. Westpac continues to have discussions with regulators from time to time about the application of responsible lending obligations to other consumer lending products. Westpac is continuing to address areas of improvement for these types of lending as well.

B. Product Administration

In 2017, Westpac identified that some customers were not receiving the full range of their entitlements in respect of various product packages (being a bundle of packages and services). In order to receive the entitlements customers were, in some cases, required to inform Westpac of their eligibility at the time they acquired specific products. However, issues were identified with the clarity of disclosure of this requirement. This affected the following two categories of customers.

Consumer Bank Customers

Westpac has identified customers with Westpac Premier Advantage, St.George Advantage, BankSA Advantage and BoM Advantage home loan packages who did not receive benefits for which they were eligible in the period 1 June 2010 to 31 May 2017. The issue affected approximately 175,000 Westpac customers. The number of impacted customers with St.George, BoM and BankSA packages is still being determined. Westpac has engaged an independent advisory firm to assist it in identifying all potentially impacted Consumer Bank customers, and to calculate the refund for each customer. There were also some instances where package entitlements had not been applied to a customer's account at all, despite the customer being automatically eligible, due to automated or manual processes breaking down.

Business Bank Customers

In 2016, Westpac identified that approximately 19,800 Business Bank package customers were not receiving benefits for which they were eligible. Thirteen different Business Bank packages have been identified as potentially being affected from approximately 2002 to 8 December 2017.

The issue arose because either the terms and conditions required the customer to inform Westpac of their eligibility, but the terms and conditions were not clear about this obligation and they failed to do so, or administrative errors resulted in benefits not being appropriately applied. Westpac is in the process of remediating affected customers and expects refunds to total approximately $65 million (for both Business Bank and Consumer Bank customers).

For the purpose of the remediation, if a customer was eligible to receive the benefit but did not inform Westpac of this, whether or not the disclosure document made the requirement clear, Westpac will apply the benefit retrospectively and refund the customer for any overpayment that occurred due to the failure to apply the relevant benefit, together with lost interest. In relation to Business Bank customers, of the thirteen separate packages, Westpac has reviewed the files of customers holding five packages which were initially identified as requiring remediation. The remaining packages are presently the subject of review to ascertain whether remediation is required, noting that some of those packages have not been offered for eight years and full records prior to that time may not be available. Remediation for the affected customers holding the first five packages commenced in August 2017 and will continue throughout 2018.

Westpac is in the process of advising affected Business Bank customers about this issue. Under the remediation plan, customers will receive a refund (including fees, debit interest charged, GST and interest) within five days of notification. Westpac has undertaken significant amendments to its policies and processes seeking to ensure that no similar issues arise in the future, including by amending its terms and conditions to ensure it is clear to customers that they need to elect to opt in to receive a particular benefit. Westpac has also discontinued the Business Bank packages.

Westpac advised ASIC on 18 May 2017. In relation to question 3(a), Westpac understands that ASIC is continuing enquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy and having insufficient monitoring and supervision in place.

Business Unit: Institutional Bank / Treasury

WIB delivers a broad range of financial products and services to commercial, corporate, institutional and government customers. This section outlines examples of actual or potential misconduct or conduct that may fall below community standards and expectations that relate to WIB. The response to question 1 addresses issues identified in relation to Bank Bill Swap Rates, Wholesale Spot Foreign Exchange trading, serious misconduct and staff training.

Question 1 Issues

A. Bank Bill Swap Rate

In approximately 2014, ASIC commenced an industry-wide investigation into the operation of the benchmark for short term debt in Australia known as the Bank Bill Swap Rate (**BBSW**). Following that investigation it initiated separate proceedings in the Federal Court of Australia against Westpac, the National Australia Bank Ltd (**NAB**) and the Australia and New Zealand Banking Group Ltd (**ANZ**). The proceedings against Westpac alleged that between 2010 and 2012 Westpac traded on certain occasions for the purpose of affecting the level at which submissions to the Australian Financial Markets Association (**AFMA**) were made by participant banks as to the prevailing yield at which negotiable certificates of deposit and bank bills traded and that those submissions ultimately affected the level at which BBSW was set. ASIC alleged that the conduct in question amounted to market manipulation and/or false trading under the *Corporations Act 2001* (Cth) (**Corporations Act**). ASIC further alleged that the conduct was misleading and deceptive or unconscionable under the *Australian Securities and Investments Commission Act 2001* (Cth) and a breach of Westpac's obligations as a financial services licensee. Westpac defended the proceedings which concluded in December 2017 and judgment is currently reserved.

Since the period in question substantial changes have been made to both the way in which that market operates and to Westpac's internal processes in connection with that market. The International Organization of Securities Commissions has issued Principles for Financial Benchmarks while financial benchmark recommendations have been issued by the Financial Stability Board. The United Kingdom, European Union, Canada, Japan, Hong Kong and Singapore have implemented legislative reform. In Australia, the administration of BBSW was amended to move from a submissions-based to a market data-based benchmark in September 2013.

B. Wholesale Spot Foreign Exchange (FX) Trading

Westpac has acknowledged that there was a reasonable basis for ASIC's concerns that between January 2008 and June 2013, its systems and controls were not sufficient to ensure compliance with financial services laws in relation to Spot FX trading. ASIC conducted an industry wide investigation into Spot FX trading. Westpac co-operated in the investigation and engaged with ASIC culminating in an enforceable undertaking with ASIC given on 15 March 2017 (**FX EU**). The FX EU is available on ASIC's undertakings register. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac.

Under the FX EU, Westpac undertook to continue to progress its program of strengthening its Spot FX policies and processes, with input from an independent expert. Westpac also agreed to make a $3 million payment to Financial Literacy Australia. Westpac expects that ASIC will appoint an independent expert under the FX EU on around 1 February 2018, who will then commence a three year process of ongoing assessment of improvements made by Westpac to its compliance and conduct arrangements. The Financial Markets business commenced the implementation of a dedicated First Line Risk team to oversee a range of operational and compliance risks in 2014 and a team of 10 resources now supports the business globally. The team is responsible for ensuring the efficacy of end to end operational risk and compliance controls, desk handbooks and compliance plans and for monitoring the effectiveness of those controls globally.

C. Serious Misconduct

Westpac has identified the following examples of misconduct by staff members in these businesses:

(a) Approximately 145 fictitious trades were entered into the Institutional Bank cross currency swap book by a former Westpac staff member. This matter was identified by Westpac in the course of a regular reconciliation process after the relevant staff member had resigned. The fictitious trades were made in the period February 2009 to July 2010 to conceal spot foreign exchange losses and later to generate fictitious profits. The staff member's conduct improved the likelihood that he would receive increased remuneration. Westpac misreported income between two financial periods amounting to $17.6 million as a result of the conduct. Westpac advised APRA. The matter was also investigated by ASIC and the staff member banned from providing financial services for eight years. Westpac engaged with APRA in relation to the remediation of its control environment to improve detection of future errors or irregularities.

(b) In March 2009, Westpac's Treasury identified an inconsistency in its long term interest rate risk (**LTIRR**) trading book. An internal investigation identified 19 off-market trades made by a former trader between two internal Westpac books, the Asset Liability Management (**ALM**) banking book and the LTIRR trading book, between 1 November 2007 and 19 March 2009. The financial impact of the 19 trades was to move approximately $10.6 million of revenue from the ALM banking book to the LTIRR trading book, but had no financial impact on Westpac's statutory accounts or to Westpac customers or counterparties. The staff member received no financial benefit from these trades. The control framework in relation to reviewing daily profit and loss reports was strengthened to mitigate further risk of similar activities. Westpac made disclosures of the issues identified to APRA.

In further answer to question 3(b), (c) or (d),, Westpac is of the view that the identified conduct, at least in part, could be attributable to individual staff member dishonesty and failure to follow established policies or processes.

D. Staff Training

In 2015, Westpac identified a gap in the training for approximately 54 Institutional Bank staff, whose standard internal accreditation package for the sale of Westpac-branded non-basic deposit products did not meet ASIC requirements for general advice in relation to Tier 1 deposit products. No actual loss to retail clients has been identified to date. The incident was discovered as part of a normal periodic review process and was disclosed to ASIC by Westpac. It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current proceedings against Westpac.

In further answer to question 3(b), (c) or (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process. Westpac implemented an enhanced training package for relevant staff.

Business Unit: BT Financial Group

BTFG provides clients with a full spectrum of wealth services, including investment, superannuation and retirement income products, investment platforms, financial advice, private banking and insurance solutions. In this section, Westpac outlines examples of actual or potential misconduct or conduct that may fall below community standards and expectations that relate to BTFG. The response to question 1 addresses issues identified in relation to BTFG's financial advice business, which is then followed by particular issues identified with certain ongoing litigation, staff training and a statutory regulatory issue. The response to question 2 then addresses issues that include disclosure documents, product administration, general insurance, product design and suspended funds.

Question 1 Issues

A. Financial Advice

BTFG provides financial product advice on wealth creation and protection, superannuation and retirement planning. The financial advisers are either staff members of Westpac or Westpac Financial Consultants Limited (**Westpac employed financial advisers**) or persons who are authorised to provide advice under Australian Financial Services Licences (**AFSL**) operated by two subsidiaries of Westpac. These licensees are Securitor Financial Group Ltd (**Securitor**) and Magnitude Group Pty Ltd (**Magnitude**).[6] As at December 2017, there were a total of 1,012 employed financial advisers or advisers operating under the Securitor and Magnitude licences, and there have been approximately 3,500 advisers since 2008. In 2017, employed financial advisers maintained a relationship with over 64,000 customers. There are also approximately 200,000 customers who have a product with BTFG, having previously received advice or service from an employed financial adviser.

Over the period from 1 January 2008 (**Period**), BTFG has identified instances of inappropriate conduct in its financial advice business. These issues have been identified individually or through systemic reviews undertaken by BTFG. The conduct has involved instances of inappropriate and/or inadequate advice, and issues with the way the advice is provided and documented. There have also been more isolated instances of serious misconduct involving some advisers. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct relating to the provision of advice services, at least in part, could be attributable to a failure to follow established policies or processes or insufficient control over the implementation of policy or process. In the cases of some of the specific financial advisers, it could be inferred from the circumstances that remuneration frameworks or incentives were a factor driving some of their behaviour. This conduct has been the subject of extensive review, client remediation activity, and regulatory engagements and outcomes including in some cases civil and criminal proceedings.[7] This is in addition to substantial regulatory and parliamentary oversight as well as legislative change to the advice regime through the Future of Financial Advice (**FOFA**) measures. The review and remediation of clients forms part of BTFG's commitment to proactively identify and resolve any issues of misconduct.

In this part of the response, Westpac: (1) provides an outline of some key reviews carried out by BTFG and ASIC over the Period which have assisted in identifying conduct issues affecting BTFG; (2) provides an explanation of the conduct issues BTFG has identified; (3) outlines the remediation steps carried out by BTFG to date on currently identified conduct issues; and (4) provides an indication of BTFG's training, compliance, control and remediation environment.

In short, while conduct issues have been identified, BTFG has taken extensive steps to ensure that any client harm from that conduct has been addressed and continues to focus on the constant improvement of its processes to prevent misconduct, and to detect and address instances of misconduct when they arise.

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[6] St.George Bank Limited previously held an AFSL which is no longer operative.

[7] In relation to civil proceedings we note for example, Robert Tindall was a financial planner who advised certain people, among others, Mark Jamieson, John Belling and Raymond Tatnell, each of whom issued court proceedings against Westpac, a beit the conduct involved was pre-2008 (and thus outside the scope of the Commission's request): *Jamieson & Ors v Westpac* [2014] QSC 321 and *Westpac Banking Corporation v Jamieson & Ors* [2015] QCA 050 (on appeal). Another example of civil proceedings is the action by Geoff Cox against financial planner Amanda Ritchie, with Magnitude named as a defendant.

Reviews of BTFG's Financial Advice Business

BTFG has conducted a number of reviews in recent years to identify and address conduct issues in its financial advice business, including ensuring fair and timely outcomes for BTFG's clients. This has involved BTFG implementing a structured and centralised review of potentially problematic advice and, where appropriate, remediation of any issues experienced by clients. These activities have enhanced governance arrangements and are subject to internal oversight and externally assessed. Additionally, BTFG has taken a range of steps to improve its prevention, detection and processing of conduct issues that arise. While prevention has always been a part of BTFG's approach, BTFG is increasingly invested in this aspect of its governance, including learning from things that go wrong. BTFG recognises that it has more to do to improve the way it goes about this.

The ACP and Related Reviews

Since 2015, BTFG has conducted extensive review and remediation activities in its financial advice business. These activities were initiated in early 2015 and were later conducted in parallel with an industry-wide review initiated by ASIC in July 2015. The first significant review is referred to as the Advice Compliance Program *(***ACP**) and was established by BTFG in 2015 to help identify and act upon instances of inappropriate advice or advice practices over the preceding five years. Initially the ACP identified and advised 22 financial advisers to ASIC.

In July 2015, ASIC began working with BTFG (and other major advice entities) on its industry wide project, known as the *Advice Compliance Project* (similarly named to BTFG's *Advice Compliance Program*). This formed part of ASIC's broader Wealth Management Project. ASIC's project partially overlaps with the ACP, however the ACP covers a longer time period and covers more financial advisers. As part of its participation in ASIC's project, BTFG agreed to conduct analysis of 18 classes of risk indicators to assess if there were other financial advisers who should also be investigated (referred to as "High Risk Advisers" or "HRAs"). This involved assessing every BTFG financial adviser that gave retail clients personal advice between 1 January 2009 and 5 July 2015 against these risk indicators. The process was independently assessed. This review identified a further 11 financial advisers as potentially providing problematic advice. BTFG continues to liaise with ASIC and clients in relation to those advisers. This assessment covered a total of approximately 3,500 advisers, and was completed in December 2017.

BTFG has continued to carry out its ACP and provides regular updates to ASIC. The primary objective of the program is to remediate clients who have or may have received inappropriate advice by a BTFG adviser. Advisers identified through normal business activities or through the ongoing "HRA" identification process are incorporated into the ACP where required. As a result of enhanced detection processes adopted by BTFG since 2015, BTFG has identified a further 15 advisers with inappropriate advice issues and each of these have been disclosed to ASIC.

The OAS

The Ongoing Advice Services (**OAS**) Review program commenced in 2016, in conjunction with ASIC's industry-wide review of OAS (ASIC refers to this as the 'Fee for No Service' review) in financial planning. BTFG's OAS Review is focused on identifying retail clients who have been charged fees for OAS, where those clients have not received service, or evidence of such service being provided cannot be located in BTFG's records. As requested by ASIC, BTFG's OAS Review program covers the period from 1 July 2008 to 31 December 2015. The methodology of the OAS Review was developed in consultation with ASIC and BTFG continues to engage with ASIC through regular meetings and correspondence.

As at 31 December 2017, BTFG has recorded through its structured remediation programs compensation of $3,213,618 for 435 clients as a result of OAS issues (i.e. having not received ongoing advice or because BTFG has not been able to identify evidence of the ongoing service having been provided). These clients have been identified through normal business activities and the ACP. BTFG has also commenced payments under the OAS Review and in December 2017 paid $142,810 under this program. Westpac's FY17 annual results provisioned approximately $24 million (including interest) for refunds of OAS fee payments related to Westpac employed financial advisers. Client refunds in relation to Securitor and Magnitude licensees have not yet been ascertained. Like the ACP, the OAS Review is being independently assessed. ASIC provides regular public reporting on its work in this area. In ASIC's Media Release MR 17-438 issued on 15 December 2017, ASIC reported that Australia Mutual Provident Society, ANZ, Commonwealth Bank of Australia (**CBA**), NAB and Westpac have now paid or offered customers $215.9 million in relation to OAS issues.

Types of Conduct Identified

Further detail on some types of potential misconduct or conduct potentially falling below community expectations affecting BTFG's financial advice business over the Period is provided below. The description is organised by the type of conduct identified in relation to financial advisers. BTFG has included in each category an example or a number of examples of financial advisers who engaged in that type of conduct. It is noted that some examples could have been included in more than one section given they exhibited more than one type of conduct.

Conduct Category 1 - Inappropriate Advice

In the above processes, BTFG has identified instances where specific financial advisers have or may have given inappropriate advice. There is necessarily a degree of subjectivity in the provision of financial advice and detecting and identifying inappropriate advice is difficult given advice is tailored to the individual needs, circumstances, and preferences of a client. Illustrative examples of inappropriate advice identified by BTFG during the Period are outlined below.

Shane Casey was a financial adviser at BTFG from 2004 to 2008. A client complaint was received about Casey in August 2008 and, after reviews of his client files, the practice manager identified three instances of potentially inappropriate personal advice primarily related to gearing recommendations. Initial notification was made to ASIC on 3 November 2008, noting Westpac had identified a number of potential breaches, with formal breach notifications being made on 11 November 2008 (referencing 4 breaches) and 20 March 2009 (outlining progress of remediation). A review of Casey's client files identified a further 138 clients which required review. Of these, 116 required remediation.

Jason Atkins was an authorised representative of Magnitude and principal of Wealth Plus Solutions Pty Ltd. Atkins was appointed as an authorised representative of Magnitude on 11 May 2015 until Magnitude terminated his authorisation on 11 December 2015. BTFG identified instances of Atkins providing advice to clients to establish a SMSF and using limited recourse borrowing arrangements to fund the purchase of real property. A review of Atkins' client advice files revealed instances of: failing to identify the subject matter of the advice; failing to conduct a reasonable investigation into the financial products that might achieve the objectives of the client; the provision of what BTFG would regard as inappropriate advice; inadequate disclosure concerning product replacement; and failures to provide the required Statement of Advice (**SOA**). Westpac first became aware of potential issues with Atkins when ASIC raised concerns with Westpac in August 2015. Following that contact, Westpac commenced an internal investigation and found that Atkins was previously investigated by ASIC while he was at Financial Wisdom Ltd, a wholly-owned subsidiary of the CBA. A Westpac staff member involved with conducting due diligence on Atkins prior to his authorisation became aware of the investigation but did not escalate the matter. In September 2015, ASIC (with BTFG's full assistance) commenced formally investigating Atkins. On 17 July 2017, ASIC banned Atkins for 3 years.

Sudhir Kumar Sinha was a financial adviser at BTFG from 2001 to 2014. Sinha's employment with Westpac ceased in November 2014 following identification of issues related to the charging of ongoing fees without providing the relevant services to clients and also the quality of advice provided. Westpac had previously undertaken an internal investigation in 2010 in relation to Sinha into allegations that included, for example, failure to provide advice documents and sanitising client files before field audits (most of these allegations were not established). In 2014, Westpac identified issues in relation to Sinha using its internal data analytics tools, Planner Risks Insights (**PRI**), following which it commenced an internal investigation. In addition to the charging of ongoing fees without providing services, the issues identified in respect of advice provided by Sinha include potentially: inadequate documentation of client's goals and objectives; inadequate file notes generally; no documented reasonable basis for advice provided or superannuation switching; inadequate risk profiling; inadequate product replacement research or disclosure; and operating outside of policies. As part of that process Westpac disclosed potential breaches of the Corporations Act in respect of Sinha's conduct to ASIC in March 2015. Following this notification, ASIC undertook its own investigations and subsequently banned Sinha from providing financial services for 5 years on 2 June 2017. There are ongoing discussions between ASIC and BTFG about Sinha's and Westpac's conduct.

Anthony Bishop was a financial adviser at BTFG between July 2010 and April 2014.[8] A review of Bishop's client advice files revealed instances of providing standardised advice across his client base and recording identical goals and objectives for many of his clients. On 15 May 2014 Westpac advised ASIC of Bishop's conduct. Subsequently, ASIC issued notices for information. Bishop was disqualified as an adviser for 8 years from 23 November 2016. This incident raised issues with a number of compliance and control arrangements including supervision, planner audits, paraplanning, vetting, investigations and PRI (which had just been introduced), all of which were investigated and considered. Overall, the compliance arrangements did identify issues with Bishop's advice in 2012 but the seriousness of the issues detected does not appear to have been identified at that time and therefore there was a failure to respond appropriately. Enhancements to Westpac's controls were made in late 2014 to embed a more formal escalation and response process in the paraplanning area.

Conduct Category 2 – Non-provision of Advice Services

BTFG has identified instances where clients have been charged ongoing fees for financial advice in periods where no financial advice services have been provided or where adequate evidence of the provision of that advice cannot be found. As described above, since early 2016, ASIC has been conducting an industry-wide review of OAS (which ASIC refers to as 'fee for no service') in financial planning, in which BTFG is actively participating. The OAS Review is focused on identifying retail clients who have been charged fees for OAS where those clients have not received OAS, or evidence of such service being provided cannot be sufficiently identified. Sinha, referred to above, is an example of the non-provision of advice issue.

Conduct Category 3 – Dishonesty

BTFG has identified instances of dishonest conduct by Westpac employed financial advisers, financial consultants or authorised representatives, including criminal activity.[9] Illustrative examples of misconduct identified by BTFG are outlined below. BTFG has advised relevant regulators of the below and has taken steps to remediate any affected clients. In further response to question 3(b), (c) and (d), Westpac is of the view that the dishonest conduct outlined in this category, in addition to being attributable to a failure to follow established policies or processes relating to the provision of advice services and the possible influence of remuneration frameworks as outlined above, could also be attributable to individual dishonesty.

Amanda Ritchie was a financial adviser employed by M&S Accounting Pty Ltd, which operated within Pinnacle Financial Planning (**Pinnacle**).[10] Pinnacle is a corporate authorised representative of Magnitude. As part of those arrangements, Ritchie was an authorised representative of Magnitude from 19 February 2013 to 14 August 2014. Ritchie performed a series of unauthorised transactions in relation to five clients, three of whom initially suffered financial loss as a consequence. Ritchie's actions involved withdrawing funds from a client's account to compensate an unrelated client for her failure to complete share trades and effecting a loan between clients without consent of the owner of the funds. Further, Ritchie manipulated SMSF transactions associated with a property purchase to fund an equity purchase for herself, falsifying documents and statements to conceal her activities. Magnitude terminated Ritchie's status as an authorised representative on 14 August 2014 following Westpac's investigation into the matter. All of Ritchie's 51 files were comprehensively reviewed and it was identified that five were impacted by the misconduct. This was subsequently confirmed by external forensic analysis (accounting and IT). BTFG conducted a 'second look' review as part of the ACP which confirmed the same. Compensation was paid to affected clients by her employer, M&S Accounting Pty Ltd. In August 2014, ASIC was advised of Ritchie's conduct, with ASIC permanently banning her on 4 October 2015. Ritchie was criminally prosecuted and sentenced on 14 June 2017 for charges including theft.

Michael Mahoney was a financial consultant at BTFG from October 2013 to July 2014, providing general advice only to retail clients on insurance products. On 30 June 2014, internal quality assurance and monitoring processes detected an anomaly in the number of life insurance applications lodged by Mahoney in which no medical conditions or lifestyle activities were declared and weight and height statistics were manipulated. Upon further investigation, BTFG concluded that Mahoney was changing

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[8] Bishop went on sick leave in December 2013 and resigned in April 2014 before BTFG's internal investigation was complete.
[9] One example of atypical misconduct, is that of financial adviser Trung Ma who operated as an authorised representative of Securitor for a time but also worked as a financial adviser for other institutions. He was arrested for the alleged murder of a client. It was subsequently found that he had de-frauded a client when he was as an authorised representative of Securitor.
[10] Neither of which are Westpac owned or controlled.

information to secure an easier underwriting pathway. The acceptance and issuing of these insurance policies also contributed to Mahoney's revenue target. Mahoney's employment ceased on 8 July 2014. In May 2015, Westpac advised ASIC of potentially misleading and deceptive conduct by Mahoney. In the interim Westpac had been conducting an internal investigation into the number of instances where this may have occurred. Westpac Life Insurance Services Limited (**WLISL**) agreed to honour certain claims under the relevant policies with indemnity from Westpac. Enhanced compliance arrangements have been put in place following this incident. This includes reporting and compliance oversight to help ensure accurate documenting of customer responses which form part of the insurance application and determine underwriting terms. ASIC banned Mahoney on 21 September 2016 from providing financial services for a period of four years.

Martin Hodgetts was a financial adviser at BTFG from 18 August 2010, resigning on 8 September 2014. Hodgetts accessed a number of dormant client records (i.e. clients with no existing accounts) and established life insurance policies, with a view to dishonestly obtaining a benefit through the sale of these policies. In particular, on 26 September 2014, BTFG identified irregularities through its internal monitoring activities. Staff members noticed that nine life insurance policies, all written by Hodgetts in the three months preceding his resignation, were about to lapse as a result of the policies' initial premium payment being dishonoured. Westpac ultimately identified 72 problematic insurance policies that Hodgetts set up between August 2011 and August 2014. There was no detriment to clients as Hodgetts did not have any contact with the clients nor had he provided any financial services to the clients in relation to these files. Hodgetts took steps to conceal his conduct and prevent the detection of that conduct by Westpac's monitoring and control arrangements. Clients were contacted and offered the opportunity to have a further review. Westpac advised ASIC on 1 October 2014 of its concerns regarding the possible misconduct. ASIC issued information notices later that year. Further information was lodged with ASIC on 20 April 2015. Westpac treated this as a criminal matter and assisted Victoria Police, who laid criminal charges. ASIC permanently banned Hodgetts on 3 August 2015.

Where misconduct of the types described above has been identified, BTFG has taken steps to investigate the adviser involved and consider both the incident in question and whether other clients of the adviser may have been affected by similar conduct. BTFG seeks to provide clients with remedial advice and, where appropriate, to compensate them for any harm suffered as a result of the misconduct.

Remediation

BTFG has sought to proactively remediate client harm, where detected, that may have been caused by financial advisers. For each of these advisers, their clients either have been or are being remediated in accordance with BTFG's advice review and remediation programs (such as the ACP) or under normal business remediation processes. Remediation has been carried out both in circumstances where the conduct of the identified financial adviser may amount to an actual compliance issue and also to achieve improved client outcomes, at times, even where the compliance issue may not have been established. Steps encompassed within BTFG's remediation programs include contacting clients who may be impacted, reviewing files and client material, assessing whether compensation is payable to the client and, if so, the amount of compensation. As an example of remediation paid to date in the ACP (not including other remediation), the ACP's review and remediation process for the initial 22 advisers is complete for 4,013 client cases out of a total of 4,481 with a total of $12,568,557 compensation paid to 205 clients, and a further $1,024,798 compensation offered but not yet accepted.

Control Environment Improvements and Reform

In addition to the remediation of clients potentially harmed as a result of adviser misconduct, BTFG has also taken a range of steps (both as part of its business as usual processes and as a result of the various reviews of its adviser business) to improve its prevention, detection and processing of conduct issues that arise. This includes strengthening data analytic capability to identify potentially problematic advisers (including that of Sinha referred to above), a key detection control being BTFG's data analytics capability PRI introduced in 2013. BTFG has also implemented a consequence management policy (which applies to Westpac employed financial advisers) which sets out how BTFG identifies and assesses an adviser's non-compliance with any employment requirement and determines the consequences to be applied, such as disciplinary measures. This process was updated on 1 April 2017. Further, BTFG mandates that all Westpac employed financial advisers have SOAs for complex advice situations produced by a paraplanning team and has introduced Adviser View, a publicly accessible website that collates client feedback and ratings after they have received key services from Westpac employed financial advisers. BTFG also maintains active involvement in industry-wide initiatives such as the implementation of the ABA's Reference Checking & Information Sharing Protocol. Other actions include digitising client files for salaried advisers and simplifying the approval process for advisers to recommend products that are not on the relevant Approved Product List, where it is appropriate for the client. BTFG continues to support ongoing professional development, having implemented refresher “Best Interests” training in 2017, and focusing annual professional certification on topical industry issues.

Notwithstanding the enhancements above BTFG notes that there are a number of aspects of its advice business' control environment that are still improving including: (1) stronger controls to prevent inappropriate advice being provided to clients; (2) ensuring the records kept in client files are comprehensive and of sufficient quality to unambiguously support the advice provided; and (3) reducing errors associated with the implementation of advice for clients e.g. not cancelling existing insurance policies once new insurance has been put in place. As noted above, BTFG recognises that it has more to do to improve the way it goes about this.

B. Outbound Scaled Advice Division Proceedings

On 22 December 2016, ASIC commenced Federal Court proceedings against BT Funds Management Limited (**BTFM**) and Westpac Securities Administration Limited (**WSAL**). ASIC alleges that during certain superannuation consolidation campaigns between 2013 and 2016, customers were offered ‘personal advice’ rather than ‘general advice’ (as defined in the Corporations Act), and that specific requirements for the provision of personal advice were not met. ASIC issued its first notice on this issue in January 2015.

As a result of the alleged provision of personal advice, ASIC also alleges that BTFM and WSAL have contravened certain of its AFSL obligations, as contained in section 912A(1)(a)-(c) of the Corporations Act. BTFM and WSAL deny the allegations and are defending the proceedings. The matter is listed for final hearing in February 2018.

C. Lenthall Representative Proceedings

On 12 October 2017, Shine Lawyers, acting for Gregory and Sharmila Lenthall, filed a representative action in the Federal Court of Australia against Westpac and WLISL in relation to the premiums charged for policies taken out with WLISL on recommendations given by Westpac financial advisers. It is alleged that Westpac has breached fiduciary duties and has engaged in unconscionable conduct amongst other things, and that WLISL was knowingly involved in these breaches. The applicants allege that premiums charged by WLISL for policies arranged by Westpac financial advisers were about 4.5% higher than the premiums charged on identical policies arranged by independent financial advisers. Westpac and WLISL are defending the proceeding.

D. Staff Training

In September 2008, Securitor and St.George identified some apparent deficiencies in their records of the continuing training that a number of their representatives had undertaken for the period between 1 July 2007 and 30 June 2008. Remediation of this matter was not carried out at the time due to a number of staff and role changes that occurred as a result of the merger between St.George and Westpac. The issues were subsequently identified as requiring action in 2009, where further deficiencies were identified for the period between July 2008 and June 2009 including lack of centralised records and failure to monitor.

ASIC was advised on 20 January 2010. The matter was the subject of engagement with ASIC and resolved as described below. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further answer to question 3(b), (c) or (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process. A program was introduced to rectify the deficiencies identified. This involved an assessment of those advisers that could not demonstrate the completion of the required training. There have been no subsequent licensee breaches identified. As a result of the above, BTFG conducted a review of RG146 training records across the broader group. The review subsequently identified additional record-keeping issues which were disclosed to ASIC.

E. Asgard Employee Super Account - MySuper Product Administration Errors

In 2016, BTFM became aware that the MySuper product in the Asgard Employee Superannuation Account (part of the Asgard Independence Plan – Division 2) (**AESA**) was being administered in a way that did not conform to the rules in the trust deed and the MySuper characteristics in section 29TC of the SIS Act. Following discussions and correspondence with APRA, on 13 September 2016 BTFM lodged a report acknowledging a breach of section 29TC of the SIS Act in respect of the AESA MySuper product. The MySuper rules (**Rules**) contained in the AESA trust deed required a MySuper product offered from the fund to have a single diversified investment strategy and did not permit the streaming of gains or losses. The Rules were consistent with section 29TC of the SIS Act. However, the product was administered such that the MySuper members were treated in the same way as AESA Choice members and were required to maintain a minimum tiered cash account balance based on their total balance. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process. It is not known whether APRA is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. The structure of the product was changed on 22 April 2017 to ensure compliance with the Rules and the SIS Act. Affected members were compensated to place them in the position they would have been had their benefits been fully invested in the MySuper investment option from its commencement in 2013 until 21 April 2017. The remediation model and tax analysis was independently reviewed and overall, the review concluded that the remediation calculation methodology was sound and consistent with principles generally applied in remediation situations. Approximately 77,513 members were paid total compensation of $6.12 million, at an average of $79 per affected member.

Question 2 Issues

A. Representations in Disclosure Documents

Westpac has identified occasions where information contained in disclosure documents issued by a BTFG entity were not sufficiently clear to meet customers' expectations of it. Some examples of conduct of that kind are outlined below.

SuperWrap and Investment Wrap

In December 2011, BTFG identified an issue relating to its disclosure of adviser fees in offer documents associated with the BT "Investment Wrap" and "SuperWrap" products and informed ASIC. Specifically, it was identified that, between 1998 and 2012, the description of the amount of advice fees that could be paid from a customer's account in some disclosure documents could potentially have been interpreted by customers as subject to maximum fee ranges when there were no maximum fee ranges.

BTFG had facilitated the payment of adviser fees from the accounts of certain customers to their advisers as instructed by the customer. In some cases the amount paid to the customer's adviser was in excess of what may have been interpreted as a maximum fee range as set out in a disclosure document. BTFG advised ASIC and APRA of the matter. The matter was the subject of engagement with ASIC and resolved as described below. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against BTFG. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process. Following identification of the issue, the relevant disclosure documents were updated to remove potential ambiguity, and to ensure impacted customers knew they could negotiate fees with their adviser without "caps" or maximum ranges. Controls were also improved, with an adviser fee monitoring process put in place to identify fees that may be considered excessive.

Having disclosed the matter to ASIC and APRA, an independent review was undertaken of whether impacted customers in certain categories should be remediated, and to assess whether the adviser fees charged were not unjustifiable. The review and remediation process (accepted by ASIC) involved considering all customers who had incurred adviser fees above the disclosed ranges and confirming matters such as whether those fees were the subject of the customers' consent, and determined the amount of the adviser fee was not unjustifiable and that they were properly incurred. In total, 1,996 impacted customers received remediation totalling $2.75 million.

SuperWrap Badges

In June 2015, BTFG[11] identified potential discrepancies in the fee amounts described in the Product Disclosure Statements (**PDSs**) of a number of badges[12] within the SuperWrap product. In particular, the Account Keeping Fee disclosed in one part of the PDS was found to have some inconsistencies with the latter part of the PDS showing a table of maximum fees allowed under the Trust Deed. The issue was discovered as part of BTFG's standard offer document review process. Specifically, it was identified that details of the maximum and minimum account-keeping fee (combination of a fixed and tiered amount in each case) were inconsistently described in some of the badged SuperWrap PDSs. The error impacted 14 badges representing 2,545 accounts. BTFG disclosed the issue to ASIC and APRA in December 2015. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of policy, process or changes to policy or process by third parties. The matter was the subject of engagement with ASIC and resolved as described below. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac.

An independent review of SuperWrap PDSs was undertaken to give assurance that all badges had been assessed and addressed, including performing an independent check of the calculations. BTFG reimbursed fees charged above the amount disclosed in the maximum fees section, with the remediation amount totalling $920,000. Further, BTFG updated documents and implemented new controls and processes to reduce the possibility of a recurrence of a similar incident. The process of refunds to impacted customers was completed in June 2016.

B. Product Administration

The following incidents are examples of process issues and policy breaches that have occurred, including IT systems and programming related issues, which amount to conduct which could potentially have fallen below community standards and expectations. In further response to question 3(b), (c) and (d), Westpac is of the view that the product administration issues described in this section could be attributable to a failure to properly implement or follow policies or processes / insufficient control over the implementation of, or changes to, policy or process or not adequately taking into account potential impacts on customers.

Protection Plans Premium Calculation

In 2009, WLISL identified that premiums for a number of income protection, living insurance, multi-life insurance policies within the Protection Plan product range had been incorrectly calculated following changes to the products after their introduction. WLISL determined that this issue was caused by a system and process failure and this issue was disclosed to ASIC. The matter was the subject of engagement with ASIC and resolved as described below. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In addition to establishing a scheme to compensate customers, WLISL established a system remediation project. The issue impacted 12,065 customers, to whom WLISL paid compensation of $886,709.

Westpac Life Insurance Premium Loadings

In 2015, WLISL identified that incorrect premium loadings had been applied to 216 customers with 273 life insurance policies during the period from 2006 to 2015. The issue arose because indicative premium loadings, relating to health and lifestyle risks, that had been applied during the preliminary assessment phase had not been removed upon issue of the policy, even though the loading had been deemed unnecessary during the underwriting process. This resulted in premiums being overcharged for affected policies.

The investigation determined that the error primarily occurred because the work instruction for processing "new business" in the relevant computer system did not trigger an automated reminder to the relevant WLISL staff member to check to see if the premium loading should be removed. ASIC and APRA were advised of this issue on 22 July 2015 and 13 August 2015 respectively. It is not known whether ASIC or APRA are conducting any further inquiries. BTFG is not aware of the issue being the

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[11] The relevant entities involved in this issue included BTFM.

[12] "Badge" refers to a variation or white label version of the SuperWrap offer.

subject of any past or current civil or criminal proceedings against Westpac. Affected customers were compensated a total of approximately $611,575 for the premium overpayments, which included accrued interest up to December 2015.

Westpac Term Life Policies CPI Indexation

In October 2016, WLISL identified that for a single subset of policies, the indexation for death benefits had ceased prematurely upon the insured's 60th birthday, when in fact the relevant policy terms meant that the indexation should have carried on for the life of the policy. The impact of this is that the sum insured and premiums did not increase by reference to the consumer price index (**CPI**) in accordance with the policy terms.

WLISL established that 304 policies were affected, including 13 against which a claim in relation to death had been made and therefore a lower sum insured payment made. BTFG advised ASIC on 9 June 2017. It is not known whether ASIC is conducting any further inquiries. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. WLISL determined that the issue had arisen as a result of a system design flaw during the product development and testing process undertaken for a series of policies issued from 2001 to 2003.

WLISL corrected the sums insured and indexation calculations in the system for all impacted policies. Also, WLISL waived any premium foregone in respect of the past period where indexation should have been applied and did not seek to recover it from policy holders. The 13 policy holders or beneficiaries who had been paid claims were compensated a total sum of $1.01 million including interest. WLISL also took steps to improve its control processes for product development and implementation.

BT Wrap Closed Accounts

BTFG identified that approximately 2,309 closed BT Wrap superannuation, pension and investment accounts administered by BTFG in the period from July 2009 to August 2016 had accumulated positive account balances totalling $2,280,000. The balances arose where certain sums had been received after the accounts were closed. These sums included accrued dividends and distributions, taxation refunds or the proceeds of a customer's investment in an underlying managed fund which had been suspended. A follow up contact with the customer had not occurred in respect of these amounts and, in some cases, the balances had not been passed to State Revenue Offices (**SROs**) (unclaimed money) or the ATO (for lost and unclaimed superannuation).

This issue arose as a result of account closure policies not being followed consistently. The matter was disclosed to both ASIC and APRA. It is not known whether ASIC is conducting any further inquiries. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. BTFG made several attempts to contact those customers whose accounts were over $20. To date, BTFG has returned $2,164,537 to 2,279 customers. Where customers could not be contacted, unclaimed monies were lodged with the relevant SROs or the ATO (as applicable). The process, controls and training for reviewing and identifying positive balances in closed accounts were also updated.

Asgard Unpresented Cheques

In 2015, BTFG identified that there were a significant number of unpresented cheques that related to payments in respect of platforms customers which had not been presented by the payee. Approximately 9,070 unpresented cheques, some dating back to 1999, totalling $2,946,329 were identified. Although quarterly reporting had been produced for unpresented cheques, regular and targeted investigations had not been made into outstanding amounts. ASIC was informed of the issue. It is not known whether ASIC is conducting any further inquiries. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. To remedy this issue, Westpac implemented process and system changes and staff training on policies and procedures. Financial compensation was paid to customers and in some instances, unclaimed money was paid to the ATO or the relevant SRO, where customers could not be contacted.

Reporting Requirements including Exit Statements

BTFG has identified instances where it omitted to correctly report to customers, in possible breach of applicable legislative requirements. For example, in the period from January 2011 to December 2013, approximately 33,890 Westpac Master Trust – Superannuation Division and Retirement Wrap superannuation members, whose employment with a participating employer had ceased and who had an account balance below $500, were transferred to an eligible rollover fund without being provided with an exit statement. ASIC was advised of the breach on 1 September 2014. It is not known whether ASIC is conducting any further inquiries. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. The issue appears to have arisen due to a failure of the automated correspondence generation system after a 2010 administration system upgrade. In response to this issue, an interim manual process was established for the provision of exit statements, sustainable changes were made to the administration system, and impacted members were informed of the error and provided with exit statements upon request.

A further example was identified where, in the period from 14 June 2014 to 8 October 2015, the exit statements issued to approximately 1,178 past BT Superannuation Investment Fund members incorrectly disclosed the insurer name and indicated that the members were eligible to elect to continue their insurance cover when they were, in fact, ineligible. Further, the exit statements issued to approximately 1,817 past BT Retirement Selection Personal Super Plan, BT Lifetime Super Personal Plan, BT Superannuation Investment Fund, BT Classic Lifetime Personal Super and BT Superannuation Savings Fund members did not include the members' insurance cover details, including (where relevant) the detail on the availability of insurance continuation. ASIC was advised of the breach on 3 March 2015. It is not known whether ASIC is conducting any further inquiries. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against BTFG. Exit statements were rectified so that, from 9 October 2015, they correctly disclosed the required insurance information. BTFG wrote to the impacted past members to provide the required cover information, and also wrote to those past members who should have been informed of their right to apply for continued cover to explain the issue and to provide them with a new period within which to apply for the continuance of their former insurance cover.

General Insurance

Westpac General Insurance Limited (**WGIL**) identified and disclosed a number of General Insurance Code of Practice (**Code of Practice**) breaches to the Code Governance Committee (**Committee**) in 2016 and 2017, primarily relating to the timeliness of providing updates to customers on the progress of home and contents insurance claims. All delays have been resolved and claims handling standards are being met.

In addition, WGIL identified a number of cancellations of home and contents insurance policies where refunds were not sent to customers within 15 business days as required by section 4.9 of the Code of Practice. The issue occurred between April 2015 and March 2017. This issue was disclosed to the Committee on 13 April 2017 and to ASIC on 27 April 2017. The matter was the subject of engagement with the regulators and resolved as described below. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against BTFG. WGIL determined that this issue was caused by process issues, including a flawed assumption in relation to a new system and a failure by an outsourced provider to attend to timely refunds due to out of date work instructions. The Committee and ASIC were kept apprised of the progress on refunds. All impacted customers received a refund plus interest pursuant to section 57 of the *Insurance Contracts Act 1984* (Cth) by 15 July 2017. Approximately 8,596 customers were refunded, totalling $829,709.25 including interest. WGIL also mapped the process to identify breakdowns and set up weekly and monthly reporting to monitor compliance. All delays have been resolved.

Following a claims dispute in early 2016, the FOS questioned whether there was a 'systemic issue' in respect of the non-payment of additional benefits to WGIL home and contents insurance clients (such as a benefit relating to the demolition and removal of debris) in accordance with the insurance policy terms. At FOS' request, WGIL is currently reviewing its historic claims payments since 2013 to ensure that all relevant additional benefits have been paid and is providing monthly updates to FOS. To date, a small number of possible errors have been identified which WGIL will continue to investigate and resolve for customers as quickly as possible.

C. Product Design - CCI

Mortgage Secure and Home Loan Protection

Mortgage Secure and Home Loan Protection are mortgage related CCI products that were promoted and offered by Westpac until June 2015. From 2012, there was a difference in opinion between Westpac and ASIC about whether these products were CCI or life insurance products for the purposes of training obligations under the Corporations Act, and how the products had been promoted to customers. The matter was resolved in 2015 with voluntary customer contact, some product design changes and an ASIC media release.

D. Suspended Funds

BTFG's wrap administration platforms provide a diverse range of investment choices on their investment menus. During the Global Financial Crisis (**GFC**) certain managed investment schemes offered via BTFG's platforms became illiquid and the relevant responsible entities suspended redemptions from the schemes. This meant customers who had invested in such suspended funds through BTFG's platforms could not access their capital from this part of their account. The first suspended funds held on the platforms occurred in late 2008 and, as at January 2018, BTFG continues to hold a small proportion of suspended funds to the value of $31.6 million in funds under administration impacting 12,120 customers. It is not known whether the regulators are conducting any further inquiries. BTFG is not aware of the issue being the subject of any past or current civil or criminal proceedings against BTFG.

The issue of suspended funds was widespread following the GFC with significant impact to customers. BTFG undertook a number of steps to manage the issue, including formalising business functions, policies and processes to manage the product and communications activities associated with the suspended funds.

Business Unit: General

In this section, Westpac outlines examples of actual or potential misconduct, or conduct that may fall below community standards and expectations, which is not limited to a particular business unit. The response to question 1 addresses issues identified in relation to compliance with Corporations Act disclosure obligations, privacy breaches and confidential information, and other regulatory breaches. The response to question 2 addresses issues identified in relation to the complaints management framework.

Question 1 Issues

A. Compliance with Corporations Act Disclosure Obligations

Westpac has identified instances where it has not complied with the obligation to provide financial services guides (**FSG**), PDS, SOA or general advice warnings (**GAW**) to retail customers in accordance with Chapter 7 of the Corporations Act. Examples of this type of conduct are set out below.

(a) In the course of updating an FSG, Westpac identified that 147,728 new members of BT Lifetime Super – Employer Plan and BT Business Super did not receive a FSG. Of those 147,728 members, 19,859 subsequently had telephone discussions with the BT Scaled Advice team, during which general advice, for which an FSG is required, may have been given. ASIC was advised on 22 July 2015 and FSGs were provided to all affected members.

(b) In August and September 2014, Westpac conducted a mystery shopping assessment in relation to the promotion and sale of credit card insurance across approximately 25% of Westpac, St.George, BoM and BankSA branches. 265 separate assessments were conducted. The results indicated that Westpac did not provide: the requisite FSG in approximately 54% of discussions; and a general advice warning in approximately 46% of discussions. This incident was disclosed to ASIC on 30 September 2014 and remediation steps were taken, including temporary suspension of the sales of the relevant products to enable additional staff training and distribution of a current FSG to all current product holders.

(c) A review of PDSs by WIB identified that from 2012 to 2015, 180 customers who invested in a foreign currency term deposit had received terms and conditions instead of a PDS. ASIC was advised on 10 April 2015. Steps were taken to remediate this issue by sending a FX Term Deposit PDS to the affected customers and not refusing any existing customers' requests to break the deposit during the agreed term.

(d) A review of customer disclosure practices by WIB in 2015 identified that Westpac did not have reliable records evidencing that a PDS had been provided to approximately 2,000 retail clients in relation to a foreign exchange product sold between 2013 and 2015 (although clients may have received a PDS via email). Westpac disclosed the matter to ASIC on 10 April 2015, and sent an updated PDS to approximately 5,600 customers, implemented more regular monitoring reviews and conducted further training on appropriate record keeping practices.

It is not known whether ASIC is conducting any further inquiries. Westpac is not aware of the issue being the subject of any past or current civil or criminal proceedings against Westpac. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of, or changes to, policy or process.

The majority of instances above were identified by Westpac, following which remedial action has been taken and processes and controls further enhanced.

B. Privacy Breaches and Confidential Information

Westpac takes its customers' privacy and confidentiality seriously. Westpac is subject to the bankers' duty of confidentiality, the *Privacy Act 1988* (Cth) and the Australian Privacy Principles (**APPs**). There is presently no mandatory requirement to report breaches of privacy to the OAIC. Westpac takes a proactive approach to the voluntary engagement of impacted individuals, where appropriate, and the OAIC where it identifies a breach, or potential breach, of privacy.

While the vast majority of customer information is securely held and kept confidential, Westpac has identified some incidents where the APPs and/or Westpac's policies on privacy and confidentiality were not complied with since 1 January 2008. Several examples are set out below.

Unauthorised Disclosures

Some examples of incidents where information was disclosed to a third party without authorisation and arising from deliberate staff member misconduct include a former staff member's disclosure of customers' temporary internet banking passwords to staff members of a mortgage broker as outlined on page 60 above; and a former staff member, who is alleged to have sent screenshots of customer information to her partner, who the police alleged was a member of a gang involved in identity theft.[13]

In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to individual staff member dishonesty, or to the inadequacy of the controls then in place against unauthorised disclosures.

Unauthorised disclosures have also occurred as a result of system or human error, including in some cases errors by third parties. Examples of matters disclosed to the OAIC include:

(a) In 2016, a customer complained that a Westpac staff member had disclosed her address to her ex-partner, the other holder of her joint home loan. The customer had deliberately concealed her address from her ex-partner as she held concerns that he posed a threat to her personal safety and security. Westpac investigated the complaint and identified that a Customer Contact Centre (**CCC**) staff member had disclosed the address to the ex-partner in the course of answering an enquiry about the delivery of a duplicate statement. In response, Westpac reviewed its customer privacy and security processes and systems, brought the gravity of the issue to the attention of its CCC staff, and instructed its CCC leaders to discuss identification policies and processes with their teams.

(b) In 2017, as a result of an error in a file generated for Westpac's external mailing house, the monthly statements of 44,922 WIB corporate client staff member cardholders were erroneously sent to the residential addresses of another cardholder. A further error was caused by the manual process used to remediate the first incident. That error resulted in the monthly statement for 9,485 WIB corporate client staff member cardholders being sent to their previous address. Westpac took immediate steps to recover the statements where possible, contacted affected customers and inserted an apology letter into the cardholders' reissued statements. Westpac disclosed to the OAIC and FOS.

(c) Further incidents relating to paper statements occurred in 2010 and 2012. In 2010, personnel at St.George's external specialist statement production house intervened, on a one-time basis, in an automated process, causing the statements of approximately 42,390 customers to include information such as transaction details and, in a small proportion of cases, account details of another customer. In 2012, the external operations and contact centre provider for RAMS sent approximately 500 customers' paper mortgage statements to other customers due to a technical error. In each of these cases, Westpac took corrective action.

(d) In 2017, in two instances, a customer's online banking facility was accessible by a small number of other customers due to misaligned account linking as a result of a technical error. Westpac delinked and applied additional monitoring to the accounts affected and ran security scripts to identify any other incorrectly linked accounts. Impacted customers were notified.

(e) In 2015, cardholder information of 916 staff member benefit cardholders of a single corporate customer appeared in the online card statements of 92 other corporate and business customers. 24 corporate and business customers received online statements containing mixed data from

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[13] An internal investigation found that the former employee had taken the screenshots of customer information while in a Westpac branch. NSW Police attended Westpac's offices and arrested the former employee. Westpac determined, on the basis of an internal investigation into the allegations, that the former employee had not accessed the information as part of the former employee's employment respons bilities.

several of their own staff members. Westpac took steps to remove the incorrect data from the online statements and wrote to the 92 other corporate and business customers to request that they destroy all affected records.

(f) In 2012, a staff member erroneously inserted a distribution list into the “To” field of a St.George customer survey email, instead of the “Bcc” field, and thereby disclosed customer email addresses to other customers. Westpac recalled the email where it remained unopened, ensured that completed surveys remained secure, sent an apology to the approximately 1500 impacted customers and amended St.George email procedures to prevent recurrence.

In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to either failure to follow established policies or processes, or insufficient control over the implementation of policy and processes. Westpac is not aware of any of the identified conduct relating to unauthorised disclosures being the subject of any past or current civil or criminal proceedings.

Unauthorised Access or Use of Information

Westpac has also identified incidents in the Period involving unauthorised use of or access to information. For example, in 2008, Westpac advised the Australian Communications and Media Authority (**ACMA**) of ‘Do Not Call Register’ incidents that occurred in June and July. The incidents were a result of data extraction errors which caused over 27,000 calls to be placed to individuals on the register. Following these events, Westpac made significant changes to its telemarketing procedures.

Security of Information

Incidents also occurred in the Period in relation to the security of information. For example:

(a) In 2011, a Westpac staff member failed to secure a copy of certain electronic files containing RAMS customer and account information. In response, RAMS issued a staff directive on encrypting data, made new encryption software available to staff, and enhanced its security processes. The OAIC was advised of this issue.

(b) In 2014, a BankSA branch desktop kiosk was able to display the e-statements of up to five previous users, due to the cache of the software used to view the e-statements not clearing at the end of each user’s session. Westpac amended the software at that branch. When it was determined that the issue could impact the St.George, BoM and BankSA networks, Westpac disabled the kiosks until a network-wide solution could be implemented. The OAIC was advised.

(c) In 2016, a customer claimed to be in possession of customer-related Westpac documents. Westpac formally demanded the customer return the documents, but the customer delivered them to Channel Nine. Channel Nine returned the documents either to Westpac or the customers concerned. Westpac investigated and determined that the documents had been improperly removed from Westpac premises by the customer’s ex-wife, a former Westpac branch staff member. Westpac communicated with impacted customers, conducted a fraud review on the affected accounts, and gave branch staff advice on the management of customer records. The OAIC and Queensland Police were advised.

In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to either failure to follow established policies or processes, or insufficient control over the implementation of policy and processes. Westpac is not aware of any of the identified conduct relating to security of information being the subject of any past or current civil or criminal proceedings.

General

Westpac may have refused customers access to their personal information in cases where it should have been provided and has received some complaints from the OAIC about this issue. Westpac does not consider that the instances identified above are the result of Westpac’s cultural or governance practices, or general industry practices, particularly given the huge scale of customer information and other data held by Westpac. Westpac maintains its commitment to addressing and responding to privacy or confidentiality-related failures and to continually improving its systems, training and processes.

C. Other Regulatory Breaches

Prudential Obligations

Westpac has identified instances of potential non-compliance with Australian Prudential Standards (**APS**), General Insurance Prudential Standards (**GPS**), Life Insurance Prudential Standards (**LPS**) and Superannuation Prudential Standards (**SPS**) since 1 January 2008. Examples of breaches disclosed to APRA include failing to:

(a) in 2010, consult with APRA before committing to provide a $1.97 billion facility, which constituted a large exposure for the purposes of APS 221. The issue arose due to a condition precedent clause being unintentionally excluded from a final version of the facility agreement;

(b) report to APRA that WLISL's statutory fund balance had occasionally fallen below the limits set out in LPS 600 over a period of years;

(c) report to APRA on the entering into and renewal of material outsourcing arrangements as required under SPS 231; and

(d) formally assess the availability of certain group insurance data and reporting to APRA in the required timeframe as well as contract and policy review and document management not effectively completed as required under SPS 250.

Statutory or Regulatory Reporting Obligations

Westpac has identified a number of circumstances where it has not complied with its statutory reporting obligations to regulators. Examples of matters where Westpac has failed to comply with its reporting obligations to ASIC include not:

(a) reporting up to 112,556 foreign exchange derivative transactions in accordance with the *ASIC Derivative Transaction Rules (Reporting) 2013* (Cth) (**ADTR**) over a two year period, due to an error made in the design of Westpac's reporting systems. ASIC imposed a penalty of $127,250 in relation to 398 alleged contraventions of the relevant rule; and

(b) accurately reporting at least 10,699 foreign derivative transactions in accordance with the ADTR over a 15 month period due to system design error that caused the fields for the buying and selling counterparty for each trade to be transposed.

Each of these matters were disclosed to ASIC.

Westpac has identified a small number of instances where its subsidiaries have failed to comply with their obligations as an Australian Financial Services Licensee in respect of financial requirements. Examples which have been disclosed to ASIC include:

(a) not producing cash flow projections for Westpac Administration 2 Ltd as required by AFSL conditions in 2015; and

(b) a 4% shortfall in Westpac Financial Services Ltd's net tangible assets position in February 2014.

Westpac has also identified a small number of instances where it did not comply with its reporting obligations to the ASX in accordance with the ASX Clear Operating Rules (**Operating Rules**). For example, Westpac failed to provide an amended AFSL to the ASX within the time stipulated under the Operating Rules and contravened the Operating Rules in relation to the holding of client monies.

AML / CTF Reporting and Compliance

Westpac has identified instances of non-compliance with its obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) (**AML/CTF Act**). For example, Westpac and St.George did not comply with certain requirements regarding transitioning to the customer identification requirements of the AML/CTF Act. In 2008 and 2009, Westpac notified the Australian Transaction Reports and Analysis Centre (**AUSTRAC**) of the matter and was then involved in a series of engagements with AUSTRAC culminating in AUSTRAC confirming that it would take no further action. Westpac also did not comply with some of the transitional timeframes relating to transaction reporting obligations. As a result, extensive discussions were held with AUSTRAC and significant additional resources were invested at the time to address AUSTRAC's concerns. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of, or changes to, policy or process.

In 2010, Westpac identified an incident involving the laundering of significant sums of money through a number of bank accounts and involving a number of former staff members. The matter was the subject of investigation by Australian Federal Police and was also made public. Following the incident Westpac commenced a series of education and awareness sessions with the impacted branches and revised its controls, surveillance and training and due diligence checks.

As part of its ongoing review, in September 2017 Westpac self-identified and disclosed to AUSTRAC an issue relating to entities that had not been enrolled with AUSTRAC as required under the AML/CTF Act. This issue has been remediated. Westpac continues to conduct reviews of its systems and identify areas for improvement and resolution.

Westpac has committed substantial resources to continuously improving its systems and processes to facilitate compliance with its anti-money laundering and counter-terrorism financing obligations. Westpac continues to engage with AUSTRAC on its activities. From 2014, Westpac has been undertaking a comprehensive review, including most recently a review of the policies, systems and controls of its Anti-Money Laundering and Counter-Terrorism Financing Program. This review is ongoing and, in response to issues that have been identified, has involved a range of reviews and improvements to its systems and controls, including to: risk assessment methodologies; guidance to support operational controls necessary to ensure compliance with reporting obligations and other requirements identified as priority areas (including in relation to ongoing due diligence); assessment of product risk; transaction monitoring processes (onshore and offshore); and identification and treatment of high risk customers.

Australian Sanctions

In 2013, Westpac was notified by the Department of Foreign Affairs and Trade (**DFAT**) that the assets of Richard Chichakli were frozen pursuant to the Charter of the United Nations (Sanctions - Liberia) Regulations 2008. Westpac provided details of accounts with assets in the name of that individual to DFAT and froze the accounts. In 2015, in the course of having the assets unfrozen post lifting of the sanctions, it became apparent that $3,336.98 had been released to Chichakli while the sanctions were in place. Westpac disclosed this to DFAT and improved controls to avoid a reoccurrence.

In August 2010, Westpac advised the RBA that a payment had been effected on behalf of a St.George customer involving a sanctioned bank in Iran without the prior approval of the RBA. Westpac undertook a transaction sampling process and confirmed that it was an isolated incident.

Superannuation Issues Disclosed to APRA

Westpac has identified instances of potential non-compliance with the SIS Act. Examples of potential breaches disclosed to APRA in the Period include:

(a) failing to correctly identify certain BT Lifetime Super Employer Plan members as 'default' (accrued default amount) members between 1 January 2014 and July 2015. These members were marked as 'choice' members, who have given the trustee a direction on how to invest superannuation contributions on their behalf when in fact they had not. All member flags were corrected and customers compensated for any lost earnings for the relevant period; and

(b) failing to correctly rebate 18,044 former Westpac staff members of the Westpac Group Plan a total amount of $690,000 in relation to Regulatory Change Expense Recovery costs. This was identified on 4 October 2016. Westpac implemented an IT solution in March 2017 to correct the configuration of the rebate. In April 2017, Westpac wrote to the impacted members and refunded the rebate and lost investment earnings.

Stamp Duty Payments

Westpac has sought to apply the correct stamp duty treatment to all its insurance products offered by Westpac Group insurers having regard to the applicable stamp duty legislation in each Australian jurisdiction. Determining how certain insurance policies should be treated in each of those jurisdictions is often a highly complex matter subject to differing legal interpretation. In that regard, there have been certain instances in which there has either been an underpayment or overpayment of stamp duty by

Westpac in respect of insurance policies issued by Westpac Group insurers. Westpac has sought to promptly rectify all identified stamp duty issues and refund customers as required by the legislation.

Code of Banking Practice Compliance

Westpac subscribes to the Code of Banking Practice (**Code**) and is required to report annually to the CCMC in relation to its compliance with the Code. Examples of breaches that Westpac has identified to the CCMC in its annual statements include a failure in 2013 to comply with section 160 of the National Credit Code by displaying marketing material without a comparison rate at approximately 193 Westpac Bank branches.

Question 2 Issues

A. Complaints Management Framework

On 29 November 2017, following a review of the Complaints Management Framework (**CMF**), Westpac advised ASIC that it had identified issues with the CMF. As an AFSL and ACL holder Westpac is required to have an Internal Disputes Resolution system that complies with ASIC's standards and requirements in RG165. Sample file testing identified a failure to respond to customers within mandatory timeframes and provide a written response containing mandatory content (such as reason for delay, resolution and FOS contact information) as required under ASIC's RG165 in 118 of the 186 files sampled. In further response to question 3(b), (c) and (d), Westpac is of the view that the identified conduct, at least in part, could be attributable to insufficient control over the implementation of, or changes to, policy or process. Work is being undertaken to improve the relevant complaints management policies, training and systems.

Response to Question 4

To respond to question 4, Westpac has included, first, a very brief summary of the Westpac Group's superannuation business.

The Westpac Group includes three Registrable Superannuation Entity (**RSE**) licensees: BTFM, BT Funds Management No. 2 Limited (**BTFM2**) and WSAL. Until 30 June 2013 Asgard Capital Management Limited was also a RSE licensee.

The RSE licensees are the trustees of the following RSEs: Retirement Wrap; Westpac Personal Superannuation; BT Superannuation Savings Fund; Westpac Mastertrust – Superannuation Division; BT Classic Lifetime; BT Lifetime Super; Asgard Independence Plan - Division 2 and Advance Retirement Suite. Until 2011 Retirement Wrap had an external trustee, Trust Company Superannuation Services Limited.

These RSEs include a number of different superannuation 'products' designed for different customer segments. The RSEs offer simple superannuation products such as BT Super for Life for customers who are interested in their superannuation but not wanting to make day to day investment decisions, corporate superannuation products for employers and their staff members that include MySuper products (for default members who do not choose their own investments), and 'choice' superannuation products such as SuperWrap for members who want to decide how their superannuation is invested from a wide range of assets including equities, managed funds, managed portfolios and term deposits.

A majority of the members invested in the BT RSEs Choice superannuation products (representing 89 percent of the asset base) want ongoing advice from their financial advisers about their investment choices and switching. Choice products facilitate how members can work with their financial advisers. The member typically agrees a fee with their adviser, which is paid to the adviser, or the advisers' licensee, from the member's superannuation account.

In contrast to the BT RSEs, a significant majority of the assets of RSEs that are known as 'industry funds' are invested in MySuper products for their members who have not exercised investment choice. Based on APRA statistics, the proportion of superannuation assets invested in MySuper products for the combined BT RSEs is 11% compared to the industry fund average of 63% with some industry funds much higher than this average.

Since 2011 a number of standalone Westpac Group superannuation funds and an approved deposit fund have been wound up, with the members and assets being transferred to other Westpac Group RSEs, chiefly Retirement Wrap. In responding to the Commissioner's questions about the application of members' funds, Westpac has provided the information on the basis that the RSEs and approved deposit fund which were transferred into other Westpac Group RSEs were part of the receiving RSE for the entire period.

In preparing its response, Westpac has divided the amounts paid from the RSEs between:

a) benefits cashed or transferred or rolled over to another RSE (which are not identified below);

b) amounts paid from a RSE in the administration of the RSE (the cost centres to which those amounts are allocated are identified in the response to question 4(c)); and

c) other amounts paid from a RSE (these amounts are separately identified in the responses to question 4(a)).

The amounts paid from a RSE and referred to in paragraph (c) can be attributed to particular RSEs and particular members within a RSE based on the transactions of and in respect of the members which are deducted from their accounts. The amounts paid in the administration of a RSE and referred to in paragraph (b) are in many cases not able to be attributed to particular RSEs and particular members within a RSE in the same way as other expenses because they relate to services that are common to the RSEs and members and which are provided to the RSEs by the Westpac Group. No costs are met from member or investment reserves within the funds.

Apart from a limited number of outsourced service providers, such as an external custodian for some of the RSEs, external investment managers and auditors, administration is provided by the Westpac Group for all of the RSEs under an Employee and Resources Sharing Deed (**Deed**). Under that Deed the Westpac Group companies that have the human, technical and financial resources required by the RSE licensees to administer the RSEs undertake to provide those resources and services to the RSE licensees in respect of each of the RSEs.

The costs to the RSE licensees of providing these administrative services are met from a combination of fees charged to members (such as administration, trustee, investment management and member fees) and a direct recovery of certain properly incurred expenses where these can be allocated to a RSE (examples include the cost to the RSE of operational risk trustee capital and the APRA levy on the RSE). These amounts are described in the PDS for the products, members' annual statements and the annual RSE (fund) reports which are publicly available. Any amounts remaining from the fees paid to a RSE licensee by members of a RSE after the licensee applies its fees to meet the costs incurred in the administration of the RSE (and which are not recovered directly from the RSE as an expense recovery), are passed on by the RSE licensee to its parent as profit.

Response to Question 4(a)

The Commissioner has asked for the uses and amounts to which a RSE licensee has applied members' funds other than in the investment, administration and payment of benefits. The uses fall into 3 categories: insurance premiums, income tax and adviser fees. These uses and amounts are specified on a per RSE basis in the table below. Amounts are calculated for each year during the period ending on 30 June and based on annual financial statements for each RSE.

Retirement Wrap ABN 39 827 542 991 RSE no. R1001327

Retirement Wrap	Net Assets ($'000)	Member Numbers	Insurance Premiums ($'000)	Income Tax Expense/ (Benefit) ($'000)	Adviser Fees ($'000)
2017	61,271,403	953,145	340,589	434,754	274,611
2016	56,664,075	922,316	327,097	70,869	268,341
2015	54,394,981	869,598	264,830	262,357	271,486
2014	48,538,001	824,458	220,865	312,605	243,578
2013	41,110,487	725,319	172,425	273,291	205,262
2012	33,976,622	623,368	119,688	139,482	176,582
2011	28,567,934	489,815	76,310	114,708	179,450
2010	24,566,042	399,874	55,834	141,021	144,586
2009	20,804,619	326,777	42,252	(682)	125,723
2008	21,555,408	219,912	31,932	(98,893)	148,389

Westpac Personal Superannuation RSE ABN 36 369 876 939 RSE no. R1003987

Westpac Personal Superannuation Fund	Net Assets ($'000)	Member Numbers	Insurance Premiums ($'000)	Income Tax Expense/ (Benefit) ($'000)	Adviser Fees ($'000)
2017	396,024	38,560	12,867	1,071	N/A
2016	407,554	33,707	13,788	1,293	N/A
2015	442,072	28,190	14,829	1,200	N/A
2014	453,432	14,887	15,461	1,312	N/A
2013	472,588	18,119	16,830	1,646	N/A
2012	478,557	20.032	18,164	1,751	N/A
2011	525,149	21,724	19,022	1,614	N/A
2010	533,836	31,453	18,883	2,046	N/A
2009	517,641	34,168	20,459	2,540	N/A
2008	608,537	36,968	19,983	2,699	N/A

Westpac Superannuation Savings Fund ABN 83 835 373 437 RSE no. R1003963
Note: This RSE is in the process of being wound up. The members' benefits were transferred to the

Colonial First State SuperTrace eligible rollover fund if the member did not choose to roll over their benefit to another RSE.

BT Superannuation Savings Fund	Net Assets ($'000)	Member Numbers	Insurance Premiums ($'000)	Income Tax Expense/ (Benefit) ($'000)	Adviser Fees ($'000)
2017	8,408	566	1	27	N/A
2016	9,601	628	1	33	N/A
2015	10,071	696	2	54	N/A
2014	11,111	760	2	52	N/A
2013	12,228	999	3	46	N/A
2012	12,940	1,083	3	58	N/A
2011	12,968	1,148	4	34	N/A
2010	13,426	1,371	5	58	N/A
2009	13,895	1,445	7	57	N/A
2008	14,590	1,532	8	95	N/A

Westpac Mastertrust – Superannuation Division ABN 81 236 903 448 RSE no. R1003970

Westpac Mastertrust – Superannuation Division	Net Assets ($'000)	Member Numbers	Insurance Premiums ($'000)	Income Tax Expense/ (Benefit) ($'000)	Adviser Fees ($'000)
2017	5,898,628	216,627	146,038	44,266	N/A
2016	5,796,699	247,920	125,599	48,018	N/A
2015	5,978,598	243,639	98,592	56,810	N/A
2014	5,787,189	256,210	86,368	57,730	N/A
2013	5,607,661	341,059	69,826	61,459	N/A
2012	5,262,624	381,546	38,779	70,132	N/A
2011	5,542,240	389,598	35,557	71,960	N/A
2010	5,407,143	397,949	31,030	72,595	N/A
2009	5,088,609	398,091	31,588	73,376	N/A
2008	6,014,341	404,089	28,898	85,142	N/A

BT Classic Lifetime ABN 68 324 870 141 RSE no. R1003925

BT Classic Lifetime	Net Assets ($'000)	Member Numbers	Insurance Premiums ($'000)	Income Tax Expense/ (Benefit) ($'000)	Adviser Fees ($'000)
2017	181,176	2,873	180	(306)	20
2016	188,115	3,175	168	(585)	13
2015	208,909	3,413	158	89	23
2014	219,183	3,801	162	(382)	22
2013	224,814	4,255	160	(458)	22
2012	232,961	4,925	156	(129)	21
2011	288,950	5,678	135	(159)	N/A
2010	316,142	6,346	141	(586)	N/A
2009	333,744	7,040	135	73	N/A
2008	443,706	7,883	124	(6,543)	N/A

BT Lifetime Super ABN 83 953 436 008 RSE no. R1003864

BT Lifetime Super	Net Assets ($'000)	Member Numbers	Insurance Premiums ($'000)	Income Tax Expense/ (Benefit) ($'000)	Adviser Fees ($'000)
2017	1,784,359	27,902	8,018	709	95
2016	1,818,993	30,989	9,293	(1,907)	112
2015	2,256,660	52,914	11,492	17,573	112
2014	2,282,651	58,654	12,277	5,912	103
2013	2,525,646	69,751	12,557	12,982	117
2012	2,435,530	76,617	12,645	6,733	114
2011	2,690,322	83,383	12,942	16,523	N/A
2010	2,712,215	90,740	11,673	6,245	N/A
2009	2,481,464	89,857	8,601	12,801	N/A
2008	2,845,285	88,635	5,853	(30,311)	N/A

Asgard Independence Plan Division 2 ABN 90 194 410 365 RSE no. R1055580

Asgard Independence Plan - Division 2	Net Assets ($'000)	Member Numbers	Insurance Premiums ($'000)	Income Tax Expense/ (Benefit) ($'000)	Adviser Fees ($'000)
2017	22,258,981	240,120	99,150	132,093	131,496
2016	21,277,826	251,895	94,046	(16,839)	130,229
2015	20,976,267	312,215	97,870	73,194	127,093
2014	19,282,872	346,214	87,463	100,674	117,016
2013	17,658,637	333,525	76,583	4,269	104,422
2012	15,999,163	352,221	71,810	117,215	96,707
2011	16,271,154	354,274	64,243	128,895	N/A
2010	15,263,964	365,947	56,919	92,932	N/A
2009	14,156,147	361,345	52,057	(63,427)	N/A
2008	15,659,803	347,562	40,461	(97,759)	N/A

Advance Retirement Suite ABN 95 068 282 166 RSE no. R1005554

Advance Retirement Suite	Net Assets ($'000)	Member Numbers	Insurance Premiums ($'000)	Income Tax Expense/ (Benefit) ($'000)	Adviser Fees ($'000)
2017	262,295	5,357	597	1,689	113
2016	268,390	5,972	642	(121)	99
2015	304,408	6,707	629	51	111
2014	327,194	7,528	631	(906)	136
2013	328,927	8,145	597	103	183
2012	322,793	9,051	574	7,445	195
2011	386,772	10,112	535	4,309	N/A
2010	395,134	11,012	492	3,533	N/A
2009	392,663	11,810	479	(7,686)	N/A
2008	485,540	12,907	464	(4,880)	N/A

Response to Question 4(b)

Question 4(b) asks why the application of funds from the relevant RSE for the uses outlined in response to 4(a) above is in the best interests of members of a RSE.

Tax

Tax is payable on the income of each RSE in accordance with the trustees' legal obligations.

Insurance Premiums

Each of the trustees pay insurance premiums from the assets of the relevant RSE to the insurer or insurers for the life insurance benefits provided to members.

Section 68AA(1) of the SIS Act requires a trustee to provide permanent incapacity and death benefits in respect of default members (MySuper members). Those benefits must be provided by taking out insurance. The *Superannuation Guarantee (Administration) Act 1992* (Cth) also requires employers to make superannuation guarantee contributions for employee members who have not chosen their own RSE to a superannuation RSE that offers life insurance cover for death to members (and since 2013, MySuper members). Since 2013, in accordance with section 52(7) of the SIS Act, the trustees' insurance strategy requires them to consider the cost of offering insurance cover to all members and to only offer insurance of a particular kind, or particular level, if the cost does not inappropriately erode the retirement income of members.

The only Westpac Group RSEs that have MySuper members are Retirement Wrap, Westpac Mastertrust – Superannuation Division and the Asgard Independence Plan - Division 2. In each of these RSEs the trustees have formed the view that offering default cover to all members subject to the insurer's eligibility requirements on an opt out basis for death and total and permanent disablement does not inappropriately erode members' retirement benefits. In addition, the trustees offer members additional voluntary death and total and permanent disablement cover, in some cases trauma cover, and salary continuance cover through the RSE's insurers. These additional insured benefits are available to members who apply for the additional cover and who satisfy the insurer's underwriting requirements.

In selecting the insurer or insurers for a RSE, the trustees consider the overall competitiveness of the insurance cover available to members including the coverage for current and prospective members in the RSE's target market, premium, terms and conditions, and services provided by the insurer. Insurers currently providing coverage for the various RSE's or through individual policies for members include Westpac Life Insurance Services Limited (the primary group insurance provider), Hannover Life RE, CommInsure, OnePath Life Insurance Limited and AIA Australia Ltd.

Adviser Fees

Members who have financial advisers may enter into an arrangement with their adviser under which the adviser provides the member with advice about their superannuation account. That advice is paid for by an adviser fee. Adviser fees are paid by the trustee with the consent of the member from the member's superannuation account in accordance with section 963B(1)(d) of the Corporations Act and Regulatory Guide 246. A member's financial adviser may be a Westpac financial planner or a third party adviser. Members can notify the fund to cease the arrangement with an adviser at any time at which point no further advice fees will be payable to the adviser.

These fees do not include commissions which were permitted before the commencement of the FOFA legislation and which, in some cases, continue to be paid where the arrangements for paying commission continue and are permitted under the 'Grandfathering' provisions of the FOFA legislation. Grandfathered commissions paid are a category of costs as set out in the response to question 4(c) for the distribution of interests in the RSE and for the provision of services for members and employers in specific employer plans.

Response to Question 4(c)

The Commissioner has asked for the cost centres that make up costs attributed to the administration of the RSEs in each of the past ten years. As noted above, Westpac has responded to this question on a Group basis because of the way the trustees apply RSE assets to meet expenses.

Westpac sets out in the table below the categories of expenses (cost centres) together with an explanation of those categories where that may be helpful for the Commission.

Category of Expense	**Cost centre**
Regulatory and Compliance	ORFR costs, duties, APRA levies, Audit and other professional service fees, Regulatory change and consolidation initiatives
Member Servicing	Account servicing including call centre for RSE members, recoverable expenses such as postage, Technology enhancements
Investment Costs	Investment management and custody fees
Support Services	Personnel and other costs, property costs, advertising
Adviser Services	Commissions (as permitted under FOFA Grandfathering) and member service fees payable to advisers or their licensees