



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

NAB Group's response dated 13 February 2018 to the questions in the Annexure to the Commission's letter dated 2 February 2018

1 Overview

The Group's responses to the questions contained in the Annexure to the Commission's letter to NAB of 2 February 2018 are set out below.

Unless otherwise specified, this response adopts the abbreviations set out in the table at page 49 of the Group's response dated 29 January 2018 to the Commission's letter of 15 December 2017 (**First Response**), a shortened form of which is repeated at the end of this response.

2 General information: Question 1

"What are the changes to governance, compliance and culture introduced by NAB to complement and enhance its overall risk management approach, referred to on p 2?"

The relevant extract from the First Response is: "We take accountability to our customers very seriously, and in recent years we have worked hard to improve in this area. The changes introduced, including in relation to governance, compliance and culture, have complemented and enhanced our overall risk management approach described above. Examples of improvements to our risk governance are set out in the NAB Annual Review 2017, at page 25, available at www.nab.com.au."

We outline in our response to this question enhancements introduced by NAB. Specific changes have also been implemented by particular businesses within the Group. See, for instance, section 8 below which addresses initiatives to enhance the risk and compliance framework for NAB Wealth's advice business.

In addition to regular reviews of key frameworks and policies and procedures (being NAB's Risk Management Strategy, NAB's Risk Management Framework, the Code of Conduct and NAB's Remuneration Policy)¹, the specific enhancements we have made over recent years to our governance, compliance and culture include:

- (a) adopting a "tone from the top" approach to our governance and compliance where our leaders play an integral role in communicating our purpose and

¹ **NAB's Risk Management Strategy** is reviewed annually, or more frequently where there is a material change to the size, business mix and complexity or a material change to the Group's risk profile. It is approved by the Board and submitted to APRA. **NAB's Risk Management Framework** is reviewed for appropriateness, effectiveness and adequacy at least once every three years by operationally independent, appropriately trained and competent persons through the comprehensive review process (see NAB Risk Management Strategy, September 2017, pp 3 and 7). **NAB's Group Remuneration Policy** is reviewed at least once annually.

values² to employees, and lead by example.

- (b) providing the Executive Group Risk Return Management Committee (**GRRMC**), (which is chaired by the Group CEO and reports to the Board Risk Sub-Committee) with regular risk culture reports. The reports are in the form of a dashboard which aims to measure the difference between risk objectives and performance, and the impact this has on NAB's desired culture and risk management outcomes. The risk culture dashboard is aligned with the Financial Stability Board's (FSB) framework for assessing risk culture;
- (c) since July 2017, introducing a standing 'risk culture' agenda item to meetings of the GRRMC. GRRMC members ask their leadership teams three questions on how they instil a strong risk culture, proactively respond to the changing environment and what 'tone from the top' is being set with respect to managing risk;
- (d) in November 2015, implementing NAB Risksmart, a new centralised operational risk and compliance management system. Risksmart has enabled NAB to improve risk identification, assessment, mitigation and reporting practices. Prior to Risksmart, operational risk and compliance information was maintained in a number of bespoke legacy systems;
- (e) strengthening the NAB whistleblower program, including by engaging KPMG to independently operate NAB's whistleblower hotline, holding bi-monthly Group Whistleblower Committee meetings chaired by NAB's Chief Audit Officer, appointing an independent officer to that Committee and ensuring that the whistleblower program conforms to the Australian Bankers' Association (**ABA**) 'Guiding Principles – Improving Protections for Whistleblowers', published in December 2016;
- (f) increasing the focus on conduct risk by:
 - (1) developing a conduct risk framework where achieving good customer outcomes is the key objective;
 - (2) defining a risk appetite statement for conduct risk where there is no appetite for deliberate misconduct;
 - (3) establishing an enterprise-wide Conduct Risk Council, sponsored by the NAB Executive Leadership Team and focusing on first line management of conduct risks. The Council is responsible for establishing a consistent approach to conduct risk and identifying developing risks to help prevent systemic issues from arising across the Group. The Council has developed a three year plan to support this work with specific priorities and actions for 2018;
- (g) introducing segmented leadership groups to improve our leaders' accountability, development and communication and introducing specific programs to increase our leaders' capacity to implement and support measures to improve culture, compliance and governance.

Governance and compliance changes have also been implemented to facilitate increased accountability to customers:

- (a) creating three chief customer roles on the Executive Leadership Team to oversee our major business divisions as NAB seeks to become an even more customer-focused organisation that delivers better outcomes for our customers and shareholders;

² One-third of NAB executive incentives are based on customer metrics, and executive pay is measured on living NAB's core values.

- (b) undertaking a major overhaul of standard form contracts for Business Bank customers, which was completed in December 2017. Those standard form contracts are now drafted in plain English and over one third of the former terms and conditions have been removed, meaning these contracts are easier to understand and are significantly shorter. Fees and charges are included in a transparent manner at the front in our documents, and if we change one of the terms of the contract, we will give customers more notice than previously if we consider it will have a materially adverse impact on the customer. We have also redrafted in plain English over 289 standard letters that go to approximately 3.1 million customers;
- (c) focusing on customer advocacy. Today, NAB uses the Net Promoter Score measure to help our bankers take greater responsibility for the customer experience. NAB bankers access regular customer feedback, together with localised scores at each of our branches, contact centres and business banking centres in order to improve customer outcomes;
- (d) changing NAB's performance management system to reflect our stated values. Employees are rewarded for modelling NAB values in addition to other performance measures. NAB is also incorporating mandated risk goals to align appropriate risk conduct and remuneration; and
- (e) implementing the Banking Industry Conduct Background Check Protocol in 2017, which involved introducing new, stricter hiring measures and employee background checks designed to prevent individuals with a history of misconduct moving from bank to bank undetected.

3 General information: Question 2

What are the measures in place to prevent and reduce instances of breaches of the Code of Banking Practice, referred to on p 29?

The relevant extract from the First Response is: "As part of its normal business operations, the Group has in place a variety of measures designed to prevent and reduce instances of breaches of the Code, many of which have been previously identified in the table above."

3.1 Introduction

The Group has committed to comply with the Code when dealing with persons who are, or may become, individual and small business customers, and their guarantors. The Code:

- applies in respect of a substantial number of potential and existing customers across NAB's consumer and business banking businesses; and
- imposes obligations across a broad range of NAB's everyday operations and activities, with which NAB complies.

We set out below a description of the measures NAB has in place to prevent and reduce instances of breaches of the Code, together with some specific examples of how these measures operate with respect to particular key activities, being home lending and unsecured lending (personal loans and credit cards).

If the Commission seeks information about the implementation of the following measures in respect of any other specific activity, or any particular aspect of NAB's operations, please let us know.

3.2 Promotion of the code

In accordance with clause 11 of the Code, we make the Code available on our website and we display copies at our branches.

3.3 Policies and procedures

Individual and small business customers and their guarantors are most likely to interact with the consumer and business banking businesses (for deposit and lending products) and wealth businesses (in respect of managed investments, superannuation and insurance products). Each of those businesses has policies and procedures in place for the conduct of our everyday operations. Some policies apply across the entire Group while others apply to specific businesses or parts of businesses within NAB. All policies are located on the Group's intranet, which is accessible by all employees.

The Group's policies and procedures include the obligations imposed by the Code, and are subject to regular review to ensure alignment with the Code.

3.4 Mandatory induction and refresher training

Clause 9 of the Code requires that our employees are trained to be aware of, and comply with, the Code.

To ensure that the Group's policies and procedures are understood and applied by all employees, we ensure that all new starters complete our Mandatory Risk Learning (Risk Ready) program, which covers a number of topics in the Code. Topics covered in this program include:

- NAB's commitment to customers and general obligations;
- what must be disclosed to customers;
- principles of conduct; and
- dispute resolution processes.

To complement our Risk Ready training, in April 2017 we introduced compulsory annual refresher training – Mandatory Risk Learning (Risk Awareness) – for all employees. This Risk Awareness training includes specific content on the importance of the Code, as well as specific Code-related content including:

- information on unacceptable behaviours including false representation and misleading or deceptive conduct;
- the Group's accreditation requirements for providing advice to clients; and
- information on managing customers' personal information, in order to ensure that their privacy and confidentiality is protected.

Our Consumer Lending business also has a specific training program, the Credit Risk Accreditation Framework (**Accreditation Framework**), which all bankers in customer facing roles involved in lending transactions must complete. It covers elements of the Code including:

- Code of Conduct Lessons Learned;
- Explaining Guarantees eLearning module;
- Navigating Your Delegated Commitment Authority eLearning module; and
- Assessing Guarantors (Bringing Theory to Life).

When a banker starts in their role, they must complete the Accreditation Framework specific to that role. Bankers are also required to complete reaccreditation annually.

3.5 Complaints management and dispute resolution

Clause 37 of the Code requires that our internal dispute resolution procedures are free and accessible, and that they meet certain external standards, including that complaints are dealt with in a genuine, fair, prompt and consistent manner. The Group tries to resolve complaints at the first point of contact when possible. A substantial majority of complaints are resolved either at the point of first contact or within 5 days of being received.

For retail customers, a dedicated complaints team called NAB Resolve manages customer complaints via a system called FAIR. Complaints are logged into FAIR, which sends correspondence to customers acknowledging receipt of their complaint and updating them about the progress of their complaint. FAIR ensures that customers are informed if we require more time to consider their complaints and provides customers with information about the availability of external dispute resolution.

Contact numbers, addresses and forms for general customer feedback and also the dedicated NAB Resolve team are provided at: www.nab.com.au/contact-us/compliments-complaints-or-suggestions.

3.6 Compliance / enforcement

In accordance with clause 36 of the Code, NAB lodges an annual compliance statement with the Code Compliance Monitoring Committee reporting on our compliance with the Code. Copies of these statements lodged between 2008 to date will be provided in answer to paragraph (b) of the Notice to Produce NP-003 dated 6 February 2018.

As part of preparing the annual compliance statement, we undertake a comprehensive assessment of our compliance with the Code and identify actions to address areas where we can improve compliance with the Code.

3.7 Breach Identification and Management

Breaches of the Code identified by NAB are recorded in the Group's risk management system (Risksmart) in accordance with NAB's Event Management Policy.

4 Consumer lending: Question 1

What are the additional risk management frameworks for the consumer banking and wealth business, referred to on p 1?

*The relevant extract from the First Response is: "Our strategy for managing risk, including conduct and operational risk, is achieved through a sound risk culture and our Group-wide Risk Management Framework (**RMF**), which are supplemented by additional risk management frameworks for specific businesses within the Group."*

The Group's consumer banking business is governed by the RMF. There are no additional risk management frameworks for the Group's consumer banking business.

The Group's Wealth business consists of a number of licensees, incorporating investments, superannuation and advice (**Group's Wealth Licensees**).

In relation to the Group's Wealth Licensees there are additional risk management frameworks which have been established and customised to meet specific legal and regulatory requirements and/or to take into account specific risks and fiduciary obligations. Those frameworks are documented in:

- the Risk Management Strategy for NULIS Nominees (Australia) Limited (the most recent version effective 1 October 2017);
- the Risk Management Strategy for Navigator Australia Limited, MLC Investments Limited and Antares Capital Partners Limited (the most recent version dated December 2017);
- the Risk Management Strategy for National Wealth Management Services Limited (the most recent version dated December 2016); and
- the Risk Management Strategy for Nabinvest Capital Partners Pty Ltd (the most recent version dated December 2017),

(together, the **Risk Management Strategies**). Copies of the Risk Management Strategies can be provided to the Commission on request.

The Risk Management Strategies are supported by a suite of materials such as Policies, Standards, Standard Operating Procedures and Guidance Notes designed to manage unique areas of risk within the Group's Wealth Licensees.

5 Consumer lending: Question 2

What is the nature and status of the ongoing investigations into the inappropriate conduct referred to on p 5?

The relevant extract from the First Response is: "Investigations have identified approximately 2,480 customers to date who may have been impacted by the inappropriate conduct. Investigations are ongoing."

NAB's ongoing investigations are focused on two main issues: (1) to determine the extent to which the approximately 2,480 customers have in fact been impacted by the inappropriate conduct – and if so, to provide remediation to those customers; (2) seek to identify to what extent other customers may have been impacted by the inappropriate conduct of the identified bankers.

In relation to the approximately 2,480 customers, and consistent with NAB's remediation plan in relation to this issue:

- a dedicated internal team is undertaking a second review of all relevant loans to those customers. This team is comprised of dispute resolution and/or credit specialists. The purpose of this review is to: (a) reach a preliminary view about whether or not there is evidence to indicate the relevant loan may have been unsuitable based on information made available to the team; (b) identify what (if any) additional information is required; (c) confirm whether NAB has this information or whether it needs to be obtained from the customer. NAB has completed approximately 735 of these second reviews;
- following completion of that second review, NAB intends to contact each relevant customer to discuss whether the loan provided to the customer was unsuitable, and where relevant to seek to remediate the customer. NAB has sought to contact 445 of these customers to date. Approximately 25% of those customers have indicated that they do not wish to participate in the remediation program;
- there are still approximately 1,745 customers whose loans are in the process of being considered at the second review phase; and
- NAB provides ASIC with regular updates in relation to the progress of the remediation. The most recent update was provided on 16 January 2018.

In relation to NAB's investigations to identify whether there are any other customers who may have been impacted by inappropriate conduct of the identified bankers, NAB has continued to review historical loans involving those bankers. Those investigations are in the nature of backward looking file reviews of each banker's loans over rolling 3 month look-back periods. Where further customers are identified that NAB considers may have been impacted by inappropriate conduct by the relevant banker, NAB intends to include those customers in the remediation program. Where no customers are identified within a 3 month look-back period, NAB ceases any further backward looking file reviews for that banker. This process of backward looking file reviews commenced on 24 November 2017 and to date has resulted in the identification of a further 175 customers who may have been impacted.

At present, NAB's best estimate of when its investigations (including provision of any remediation) will be complete is the end of September 2018.

6 Consumer lending: Question 3

What are the control deficiencies and cultural factors that NAB identified that may have contributed to the misconduct referred to on p 5? What actions have been undertaken to strengthen them?

The relevant extract from the First Response is: "The Group has undertaken actions to strengthen identified control deficiencies and cultural factors that may have contributed to the misconduct."

NAB has undertaken a root cause analysis to seek to identify why, despite existing controls, it would appear that inappropriate conduct by a cohort of bankers and third parties resulted in loans not being provided in accordance with NAB's policies and responsible lending obligations.

Analysis of the controls in relation to home lending identified that:

- the majority of controls were located in the fulfilment / servicing and monitoring and support phases of the process of assessment, approval and granting of the relevant loans;
- the control environment contained manual and ineffective controls; and
- there was a critical reliance on controls directed to document verification to detect banker error, fraudulent information (although not specifically designed to do so) or misconduct prior to loan approval.

Key findings of the root cause analysis were that:

- there were inconsistencies in consumer lending sales practices that resulted in non-compliant process execution;
- the control framework at the time was not effectively designed to mitigate conduct and fraud risks associated with the relevant loans; and
- the monitoring and reporting controls in place were not adequate to detect and deter non-compliant conduct and fraudulent behaviours.

NAB's controls at the time were not sufficient to prevent banker misconduct and a range of other measures were required to operate effectively together to ensure desired conduct outcomes were achieved. Those other measures included: measures at the time of banker recruitment; training and accreditation to ensure bankers have the right capability and awareness; appropriate design of banker performance incentives and rewards to align objectives; monitoring for quality and compliance to provide a feedback mechanism of expected requirements and standards to bankers and to ensure issue identification; coaching and feedback; and where required, consequence management.

Specific control gaps that were identified included:

- the absence of control(s) to detect fraudulent or falsified documents (e.g. employment, income or rental statements of loan applicants);
- weaknesses in the design of verification controls. Controls requiring improvement included independent verification of employment; more stringent expense verification; verifying customer signatures across documentation; improvements in detection of missing documentation to support rental income; and confirmation of appropriateness of translated foreign documents; and
- the absence of post-drawdown monitoring to validate agreed use of funds by customers (for example, ensuring that investment lending is used for investment purposes; income exists to support serviceability; and confirming the cash component of the loan facility does not exceed policy requirements).

In developing its response to these issues, NAB considered that a multi-dimensional solution was required, with 6 key objectives:

- appropriate recruitment, training and accreditation;
- strengthening of the control environment;
- reduction of consumer lending process complexity through eliminating process variation and simplifying the control environment;
- creation of a conduct model using predictive high risk indicators to identify bankers requiring closer supervision, and use of high risk characteristics to predict emerging areas of concern / systemic issues;
- ensuring local leadership manage, overview and coach bankers for process quality and compliance improvement; and
- objective assessment of existing monitoring and reporting and reinforcement of appropriate use and outcome expectations through strengthening feedback loops.

In this regard, NAB has already invested in and delivered the following 5 key initiatives:

- Introducer program changes – mandatory e-Learn training for all bankers educating them on how to deal with Introducers appropriately; new consistent onboarding (that is, processes for engaging new Introducers to familiarise them with NAB's requirements and expectations), and a due diligence process for Introducers to ensure NAB has knowledge of the Introducer's identity, what the Introducer's main business is and the source of the Introducer's referrals. The program changes include the tightening of criteria for entry and has also involved entry into new agreements with Introducers giving NAB the right to clawback commissions and articulating NAB's expectations about Introducer behaviour;
- lending responsibly e-Learn – NAB's Core Capability team has delivered improvements to the existing e-Learn training undertaken by relevant NAB bankers which more appropriately reflects the current operating obligations for the home lending product;
- "one way same way for small business" lending process changes – these process changes require all lending files to go through Fulfilment (which is NAB's in-house settlement and verification back office) resulting in segregation of duties, multiple checkpoints for quality, verification of income information and documents being produced in a compliant manner;
- 6-monthly banker/Introducer relationship reviews – this includes steps to identify whether there are any conflicts of interest between banker-Introducer-customer; and
- NAB has formed a conduct risk council with senior representation across the bank focused on improving awareness, communication and reporting of conduct.

Further, the following 5 key initiatives are in the process of implementation:

- embedding of robust monitoring and oversight of Introducer conduct with proactive and reactive plans in place to monitor churn, spikes in volume and relationships with bankers;
- piloting an additional assurance program specifically focused on banker quality with outcomes being triggers for accreditation continuation;

- Mortgage Specialist program – Additional support and expertise is being overlaid into Business Banking Centres to improve customer experience and loan quality;
- Application Fraud Tool – NAB is currently conducting a proof of concept conduct model including the use of image analysis, internal data points and data analytics to further automate customer verification; and
- piloting a predictive banker conduct model. The model requires further validation work before it is implemented beyond the pilot phase however early indications are that the model is predictive of poor banker conduct.

7 Consumer lending: Question 4

What are the measures that NAB has in place, as part of its normal lending operations, to prevent and reduce instances of misconduct, referred to on p 7?

The relevant extract from the First Response is: "As part of its normal lending operations, the Group has in place a variety of measures that are designed to prevent and reduce instances of misconduct, including:

- reviewing and updating policies and procedures in relation to lending; and*
- providing employee training designed to increase understanding of, and compliance with, lending policies and procedures.*

As noted above, changes have also been made to incentive structures that may have contributed to these issues. From 1 October 2017, the Group has been moving branch and assistant branch managers and sales team leaders in customer call centres from incentive plans that reward sales to the Group's Short Term Incentive Plan, which places greater emphasis on customer outcomes."

7.1 Introduction

NAB's consumer lending comprises secured lending (for residential home or investment loans) and unsecured lending (credit cards and personal lending).

NAB offers consumer lending through different products, being NAB and Advantedge Financial Services Pty Ltd. Depending on the product, consumer lending is then offered through multiple channels – including NAB's branches, NAB and UBank online and telephone contact centres and third party mortgage brokers.³

While there are differences between channels and products, the measures to prevent and reduce instances of misconduct in connection with consumer lending are largely similar across the Group.

These measures may conveniently be grouped under the broad headings of employee training, policy development and maintenance, the operational risk management framework, the assurance programme⁴, fraud monitoring and NAB Assist.

As a result of the particular conduct that is referred to in sections 5 and 6 above, NAB has implemented or is implementing a number of specific responses, which are described in further detail in section 6 above and, where appropriate, under the specific headings set out below.

7.2 Employee training

NAB has specific and detailed training for employees in relation to consumer lending. In addition to the training that all consumer banking employees complete, there are tailored modules for specific roles and business areas.

All employees that are credit representatives are required to complete the minimum lending training accreditation set by NAB. For example, for bankers involved in home lending, this is the Secured Lending Accreditation pathway and involves training and assessment in:

- responsible lending principles and their application;

³ Consumer loans are also made to business customers through our Business and Private Banking division.

⁴ Referred to as the Enterprise Consumer Lending Assurance Framework (ECLAF). See section 7.5 below.

- the regulatory environment and compliance;
- product knowledge and tools, and matching products to customers' requirements and objectives;
- reviewing customers' income, assets and liabilities, and ensuring that a lending contract is not unsuitable for a customer;
- lending securities and their use; and
- guarantees – in particular, the key steps in the taking and execution of guarantees and the steps that bankers must take when explaining guarantees to customers.

Additional training is required for employees who are involved in manual lending decision making or in assessing exceptions to lending policies. Accredited representatives are required to undertake continuing education in credit topics in order to maintain and update their knowledge.

In response to the events described in sections 5 and 6 above, NAB is updating its responsible lending e-learning program and is implementing a new Introducer Training e-learning program.

7.3 Policy development and maintenance

NAB has developed policies that guide each stage of the consumer lending process, from initial customer enquiries through to execution and assurance. Policies are updated to reflect regulatory changes and the experience and events of the business.

Policies are contained on the NAB intranet. Employee training includes familiarisation with policies relevant to their activities and roles.

7.4 Operational framework

NAB's operational framework for consumer credit applications sets out clearly defined responsibilities and processes for approval and processing of loans. The objective is that credit and lending guidelines are followed and any exceptions are determined by appropriately qualified and accredited senior lending employees.

For example, a retail banker processing an application for a residential home loan is responsible for collecting and inputting the required information from the customer into NAB's online lending systems. These systems will either generate a conditional approval or raise an exception flag requiring the application to be escalated to a credit manager with appropriate authority, who may determine whether a policy exception may be granted in the particular circumstances of the customer. The retail banker has no discretion to approve a loan.

Most loans are subjected to a "4 eye" check involving separate review of the application by another member of the operational lending team. Again, the second reviewer does not have discretion to approve an otherwise non-conforming application.

These measures help to ensure that NAB's lending policies are applied consistently, and to prevent and reduce banker-related misconduct.

In response to the events described in sections 5 and 6 above, NAB is implementing:

- changes to its Introducer program;
- strengthened controls for small business lending (see the "one way same way for small business" lending process changes described in section 6); and
- the Mortgage Specialist program in business banking centres.

7.5 Assurance

NAB has an enterprise wide assurance program for consumer lending products known as the Enterprise Consumer Lending Assurance Framework (**ECLAF**). It includes a standard methodology for:

- testing criteria;
- scoring;
- file selection; and
- reporting.

A monthly sample of completed applications for home loans (10%), personal loans (10%) and credit cards (5%) are randomly selected and subjected to assurance reviews by independent operational teams. These teams perform a set of objective checks to determine the compliance of the loan with regulatory obligations and critical processes, including whether:

- the banker has appropriately understood the customer's objectives and selected an appropriate product;
- the banker has made appropriate enquiries into the customers financial circumstances, previous financial difficulties and foreseeable change in the customers circumstances;
- the banker has understood and correctly recorded the customer's assets and liabilities, and their ability to make repayments;
- where the loan term will extend the borrower past the age of 70 years, an exit strategy has been recorded;
- the correct documentation and evidence has been identified for verification purposes, and has been supplied and verified;
- credit checks have been completed for all individual customers; and
- consents are executed correctly and held.

In response to the conduct described in sections 5 and 6 above, NAB is also currently piloting an additional assurance program specifically focused on banker quality.

7.6 Fraud Monitoring

NAB also has measures in place to identify and flag aspects of consumer lending applications consistent with potentially fraudulent activity by customers, intermediaries and/or employees. This type of activity typically comprises one of three broad categories:

- where a customer applies for consumer lending and has no intention of making repayment;
- where a customer deliberately misrepresents their ability to make repayments (eg through provision of false documentation) in order to secure consumer lending and subsequently experiences difficulties in making repayments; and
- fraudulent conduct by third parties, customers, intermediaries and/or employees.

Applications exhibiting these characteristics are identified through:

- a number of preventative controls carried out by intermediaries and/or NAB employees when initially assessing a consumer lending application; or
- a combination of automated alerts and manual reviews.

Those applications are escalated for investigation by a specialist fraud team within NAB.

In response to the conduct described in sections 5 and 6 above, NAB is also currently piloting a new tool designed to detect application fraud.

7.7 NAB Assist

Finally, our NAB Assist team also provide an advanced examination of delinquent customer accounts which fall into the following categories:

- customers who have experienced difficulties in making home loan payments soon after approval and execution of the relevant transaction (for example, within 12 months of approval of a residential or investment home loan); and
- customers who have made complaints alleging irresponsible lending in relation to their credit facility via NAB's internal or external dispute resolution processes.

This provides information on whether the difficulties are due to unexpected external events affecting the borrower or reflect any deficiency in the application process.

8 Wealth management: Question 1

What are the initiatives that NAB has introduced to enhance the risk and compliance framework for NAB's Wealth advice business, referred to on p 8?

The relevant extract from the First Response is: "The Group has introduced initiatives to enhance the risk and compliance framework for NAB Wealth's advice business since 2013, including the following:

- improving its recruiting and screening processes by requiring the Group's advice licensees to subscribe to the Australian Bankers' Association reference checking and information sharing protocol;*
- monitoring advisers through regular and ad-hoc adviser audits and checkpoints;*
- improving processes to reduce risk of an adviser review being missed or delayed;*
- improving the quality assurance process for advice reviews;*
- appointing an independent customer advocate for Wealth Advice;*
- implementing a process to notify ASIC of any adviser departures where there are compliance concerns;*
- introducing higher education and qualification standards for the Group's financial planners;*
- appointing Deloitte to review and report on the Group's progress (with those findings to be provided to ASIC); and*
- training for advisers."*

The Group's compliance mechanisms and processes, including its rules for financial advisers, advice templates and auditing of files, are under regular review and are adapted and improved to appropriately take into account identified concerns. The Group has introduced initiatives to enhance the risk and compliance framework for the Group's wealth advice business since 2013. This response identifies each of the initiatives that the Group considers to be material.

8.1 Improving its recruiting and screening processes by requiring the Group's advice licensees to subscribe to the Australian Bankers' Association reference checking and information sharing protocol

We have subscribed to the ABA's Reference Checking & Information Sharing Protocol (**Protocol**) from 1 March 2017.⁵ The purpose of the protocol is to promote improved reference checking during the recruitment of financial advisers by increasing information sharing between financial advice licensees about the performance history of financial advisers, focusing on compliance, risk management and advice quality. The protocol sets minimum standards for:

- reciprocal information sharing obligations;
- a standard process and timeframes for provision of references and information;
- fact and data based, standard reference checking questions; and
- record keeping obligations.

⁵ NAB's Financial Advice Customer Response Initiative Update', 17 March 2017: <http://news.nab.com.au/nabs-financial-advice-customer-response-initiative-update-2/>

We seek and provide a standardised ABA reference check form for all on-boarding and off-boarding references requested.

However, our recruiting and screening processes go beyond the requirements of the Protocol in that we proactively contact a new licensee to offer a reference when an adviser of concern leaves the Group and we become aware that they are looking to join a new licensee (provided that the adviser consents to this as per standard confidentiality/privacy consent processes). In addition, we apply the Protocol in providing information to all licensees regardless of whether they too are signatories to the Protocol. The Group's requirements for on-boarding and off-boarding of financial advisers is reflected in our Advice Compliance Framework, which includes guidelines for the implementation of the Protocol.

8.2 Enhanced monitoring of advisers through regular and ad-hoc adviser audits and checkpoints

Establishment of a monitoring and supervision project

A project team was established in early September 2017 to review and revise the adviser monitoring and supervision framework within the Group's wealth advice business. The goal of this project is to implement changes to align the wealth advice business framework with the recommendations outlined in ASIC's Report 515 Financial advice: Review of how large institutions oversee their advisers (17 March 2017) (**ASIC Report 515**).

Revised audit question set

The question set and guidelines used for conducting compliance audits have been revised and are currently rolling out. The question set aims to give additional support and guidance to compliance auditors when assessing whether financial advisers are acting in their clients' best interests, and in monitoring replacement product advice offered by advisers.⁶ The question set also facilitates more detailed commentary from auditors in respect of their findings. The revised question set has been developed taking into account recommendations outlined in ASIC Report 515, including the checklist in Appendix 3 which sets out the relevant factors for licensees to consider when auditing advisers to determine whether they have demonstrated compliance with their duty to act in their clients' best interests and related obligations when providing financial advice.

Remote reviews

Since November 2017, the audit function has moved from conducting audits in advisers' offices to conducting audits centrally in the Group's offices, using files uploaded by advisers onto the Group's advice software solution, XPLAN. This move allows more time for auditors to conduct audits, enables greater collaboration among auditors and their colleagues and quality checkers, leading to improved consistency and quality of audits, and mitigates the risk of advisers influencing auditors. This change was again responsive to ASIC Report 515.

KRIs

We have developed key risk indicators (**KRIs**) as part of our Customer Response Initiative (**CRI**) program (which involves a review of financial advice provided between 1 January 2009 and 31 December 2015) that have enabled a more risk-based and data driven approach to monitoring financial advisers.

The following has been delivered:

⁶ This refers to the obligations set out in Div. 2 of Pts 7 and 7.7A of the Act.

- (a) the KRI data (2009 - 2015) developed in the CRI program has been factored into our current business as usual (**BAU**) compliance audits, which drives risk based targeting of areas of advice and file types for review; and
- (b) re-run of key KRIs with data from 2015 through to 2017 to identify and prioritise advisers and areas of advice that need to be reviewed more urgently as part of our BAU compliance audits and through themed reviews.

Management Reporting

We have enhanced reporting by improving the amount of quality data recorded and analysed to ensure we better flag with management and to manage adviser non-compliance. In particular, the monthly Licensee Risk Forum which commenced in early 2016 brings together representatives from across all our licensee channels in a single forum to review a range of data points relating to adviser and licensee compliance. This forum assists us to ensure we appropriately investigate and manage the customer impacts of adviser non-compliance.

Themed reviews

The themed review program has been enhanced with dedicated resourcing of senior auditors to increase the number of themed reviews on high risk areas or topics of concern (such as insurance replacement advice and self-managed super fund advice). Themed review topics are logged on a register with broad stakeholder input and outcomes are reported through management and board reporting.

PDM Checkpoints

Practice Development Managers (**PDMs**) perform a supervisory function over advisers as part of our advice compliance framework as well as conduct file reviews as checkpoints which complement the BAU compliance audit reviews.

The supervisory activities of PDMs have been enhanced with an increased number of checkpoints that are more targeted at specific areas of risk, and with greater management and board reporting required.

8.3 Improving processes to reduce risk of an adviser review being missed or delayed

National panel management

As of November 2017, the method of managing adviser panels for conducting audits has moved from a state-based system with five different panels managed separately to a national system with one national panel. This enables greater oversight of advisers, and therefore reduces the risk of an adviser audit being missed or delayed. A control has also been established to deliver a monthly reconciliation report which identifies any advisers whose audit has gone beyond the required time period and the reasons for this.

Improved data

Ongoing improvements have been made to the quality of data in the central adviser data management system (**AKM**), and to functionality of the AKM system itself. One such change is the development of a process to regularly cross-reference internal panel data with the ASIC Financial Adviser Register (**FAR**). This allows the Group to more comprehensively track its advisers, reducing the risk of missed or delayed reviews.

8.4 Improving the quality assurance process for advice reviews

Enhancement of the Quality Assurance (QA) framework for audits

The Group has introduced a dedicated QA Manager role within the Advice Compliance function. The focus of this role is to enhance quality and consistency of process and outcomes across advice compliance (audit, remediation, disputes). As of late 2017, we developed and are now rolling out a quality assurance program that consists of:

- (a) “check the checker” reviews of 20% of all audits that are done (beginning from Jan 2018) conducted by a dedicated team of senior auditors;
- (b) ongoing data quality and accuracy checks of data recorded in AKM (from mid-2017);
- (c) calibration sessions to enhance the consistency of audits; and
- (d) more structured auditor ongoing training around changing licensee standards.

Revised licensee standards

In October 2017, we completed an external review of our licensee standards and commenced implementation of recommendations arising from the external review. The Group has revised a number of its licensee standards in response to the recommendations, including:

- (a) an enhanced Best Interest Obligations licensee standard to give additional support and guidance to advisers to act in their clients’ best interests and related obligations (effective 1 February 2018); and
- (b) an enhanced Ongoing Service Obligations licensee standard that states that advisers must include the 24 month non-review termination obligation with existing agreements requiring its inclusion at the next client review and no later than 1 January 2020. Effective 1 January 2020, an ongoing advice fee terminates if a client is not reviewed and advice (SOA or ROA) provided in the 24 months period prior to the FDS anniversary date.

The Group is continuing to consider additional changes in line with the recommendations from the external review and feedback from ASIC.

Improved advice process and templates

We have spent over \$8m to date over the last two years to refresh advice processes and templates provided to advisers. This work includes significant updates to advice templates delivered alongside a comprehensive education program to improve adviser capabilities around constructing and presenting advice using XPLAN and engaging in consistent workflow approaches to seek to ensure quality customer outcomes.

8.5 Appointing an independent customer advocate for Wealth Advice

As part of the CRI, the Group appointed an Independent Customer Advocate (ICA). The ICA has played an important role in the design of the Group’s CRI. The ICA has also been embedded across the advice business, providing critical customer insights and perspectives across many aspects of the business. The ICA attends the Advice Licensees Board (ALB) (the primary purpose of the ALB is to oversee compliance with licence conditions applicable to the AFSLs and Australia Credit Licences held by the financial planning groups operated with the Group), has presented at and participated in senior leaders forums, and is consulted with respect to broader strategic planning and regulatory responses to ensure that the customers’ perspective is represented.

8.6 Implementing a process to notify ASIC of any adviser departures where there are compliance concerns

The Group notifies ASIC of adviser departures where we have compliance concerns (for example, misconduct, gross incompetence, gross negligence, deliberate breaches of internal rules or standards, and conduct resulting in financial loss to clients caused by advice received) in relation to an adviser's conduct as a financial adviser. We provide the following information to ASIC:

- (a) adviser & licensee;
- (b) representative number;
- (c) employment period / authorisation period;
- (d) concern identified;
- (e) how and when concerns were identified;
- (f) customer impact (if known); and
- (g) remediation details (to date).

8.7 Introducing higher education and qualification standards for the Group's financial planners

The Group is and has been supportive of the move to higher education levels for advisers as part of driving increased professional standards across the industry. In 2015, the Group committed to driving increased education standards across advisers in its network. Across NAB Wealth licensees, all new financial adviser recruits (whether self-employed or salaried) are required to hold or be completing relevant higher education at Advanced Diploma level or above (in addition to a minimum financial planning qualification of ASIC's RG146⁷ or higher). Existing advisers are also seeking further education in line with the requirements for new advisers, or are intending to retire by the transition date of 2024 in line with legislative timeframes.⁸

8.8 Training for advisers

Progress since 2014 in this area includes:

- (a) a new Advice Framework was launched in October 2017 resulting in improved advice templates, processes and training to drive improved quality customer outcomes, adviser efficiency and compliance outcomes;
- (b) an improved advice strategy training program launched in 2014 based on customer advice trends and complex advice capability uplifts required in areas such as Personal & Business Succession, Aged Care, SMSFs and Small Business CGT; and
- (c) the delivering of enhanced XPLAN training for advisers.

8.9 Appointing Deloitte to review and report on the Group's progress

In 2014, the Group conducted an assessment of the advice framework and engaged Deloitte to provide external feedback. The assessment of the Wealth Advice business was performed in the context of a Quality Advice Framework across seven streams:

⁷ <http://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-146-licensing-training-of-financial-product-advisers/>

⁸ This refers to the requirements set out in Div. 2 of Pt 8A of the Corporations Act 2001 (Cth) and the Corporations Amendment (Professional Standards of Financial Advisers) Act 2017.

governance and oversight, ethical conduct, customer centric culture, fair customer remediation, adviser professionalism, customer care, demonstrable change and robust monitoring and supervision. A series of recommendations were made with a number of improvements implemented between 2014 and 2017. In light of recent challenges relating to beneficiary nominations, ASFs and ASIC Report 515, the Group recognises further effort is required relating to the consistency of delivery of quality advice outcomes to meet community, customer and regulatory expectations, now and into the future.

Accordingly, the Group recently sought to conduct a self-assessment of the business across the same themes as the 2014 assessment. As part of this process, the Group re-engaged Deloitte to provide advice, participate in stakeholder meetings and review documents with a view to providing critical challenge and feedback in relation to the Group's self-assessment and future uplift plans. The purpose of this exercise was to:

- (a) evaluate the Group's progress in the evolution of its advice framework since 2014 and assess the current framework against consumer and regulator expectations;
- (b) provide insight into the likely shift in expectations towards 2020 and beyond; and
- (c) highlight areas to be addressed for the Wealth Advice business to satisfy these expectations.

The assessment has highlighted improvement since 2014 that are at different stages of maturity. Some key improvements are:

- (a) the establishment of the CRI program and the introduction of the Independent Customer Advocate and the development of a customer care methodology;
- (b) the Controls Transformation Program has provided an uplift in controls in terms of visibility and accountability, as well as some improvement in effectiveness;
- (c) the establishment of a dedicated ASIC response team;
- (d) the introduction of Licensee Risk Forums in 2016 to provide insights based on compliance data to improve visibility and accelerate remediation action;
- (e) introduction of themed advice reviews at the request of the Chief Risk Officer, commencing with insurance replacement advice;
- (f) background and reference checking process for newly appointed advisers being strengthened to conform to ABA protocols; and
- (g) the meeting of minimum education requirements for new advisers.

The exercise resulted in the completion of the Quality and Advice Framework Report (November 2017). The themes and key recommendations from the review process propose the following focus areas:

- (a) proactively identifying conduct concerns and issues and resolving these concerns and determining the root cause transparently both internally and externally;
- (b) digitising the customer life cycle / customer interface;
- (c) redesigning monitoring and supervision in order to identify granular conduct risks and opportunities; and
- (d) accelerating the operationalisation of remediation programs including the CRI and the ASF work.⁹

⁹ See page 12 of the First Response.

9 Wealth management: Question 2

What are the internal policies and procedures for reporting in compliance with s 912D of the Corporations Act 2001 (Cth)? If those policies and procedures have changed over time, identify what changes were made and when they were made.

The response to this question describes the internal policies and procedures of the Group's Wealth Licensees for reporting in compliance with s 912D of the Act. In addition, for completeness, it also describes those policies and procedures for the Group's Banking Licensees (as described below). It sets out:

- **Section 9.1:** the terms used in this response;
- **Section 9.2:** an overview of the internal policies and procedures for breach reporting; and
- **Section 9.3:** the changes to the policies and procedures over time.

Copies of the materials underlying this response can be provided to the Commission on request.

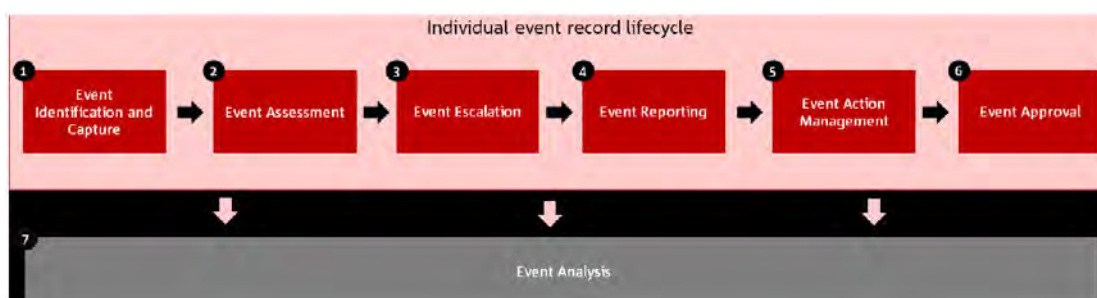
9.1 Terms used in this response

Breach	All matters that have been referred to a licensee's or its holding company's Event Management Committee for determination of reportability to ASIC under s 912D(1B) of the Act or to the Group's other Australian regulators. A Breach may be a Significant Breach or Non-Significant Breach.
Event(s)	See definition of Incidents.
Event Management Committees / Event Panels	<p>The committees with responsibility for determining whether an Event is reportable to ASIC under s 912D(1B) of the Act and/or to the Group's other Australian regulators are:</p> <ul style="list-style-type: none"> • in the case of the Group's Wealth Licensees, the NAB Wealth Breach Review Committee (BRC). In the case of Events covered by Group-wide cross-divisional regulatory initiatives in addition to the Wealth business (for example, AUSTRAC regulatory requirements), these may also be referred to the SERP (discussed below); and • in the case of the Group's Banking Licensees, the Significant Event Review Panel (SERP). <p>In addition, for Wealth Licensees, Event Panels determine whether Events are to be referred to the BRC. Each business unit supporting the Group's Wealth Licensees has its own Event Panel. For Banking Licensees, a "triage" committee determines whether Events are to be referred to the SERP.</p>
Event Owner	The Event Owner is the relevant business leader responsible for the overall management and rectification of Events and/or Breaches. The Event Owner is referred to in the NAB Event Management Policy as the "Business Leader" or "Event Approver".
Group's Advice Licensees	The Group's Advice Licensees are a subset of the Group's Wealth Licensees. They include authorised representatives and/or financial advisers who can provide personal advice and who operate under the NAB AFSL.
Group's Banking Licensees	The Group's Banking Licensees include NAB and other entities outside of the Wealth management business.
Group's Wealth Licensees	The Group's Wealth Licensees operate the Wealth management business of the Group, incorporating investments, superannuation and the Group's Advice Licensees.
Incidents or Event(s)	All matters categorised as an actual or potential breach of an internal policy of a licensee or its holding company and/or breach or potential breach of the licensee's or its

	holding company's regulatory obligations and which have been recorded by the licensee or its holding company in Risksmart. ¹⁰
NAB Event Management Policy and NAB Event Management Supporting Materials	The NAB Event Management Policy specifies the minimum requirements for each stage of the event management lifecycle. The Policy sets out: policy principles; roles and responsibilities; policy requirements across each stage of the event management lifecycle; policy exemptions; and policy breaches. The policy is supplemented by the NAB Event Management Supporting Materials, which provide guidance, process documentation and training material. In relation to the Group's Wealth Licensees there are additional risk management strategies that have been established and customised to meet specific legal and regulatory requirements and/or to take into account specific risks and fiduciary obligations. As required the NAB Event Management Policy has been adapted to implement the risk management strategies. These strategies are supported by a suite of materials such as Policies, Standards, Standard Operating Procedures and Guidance Notes designed to manage unique areas of risk within the Group's Wealth Licensees.
Non-Significant Breach(es)	All matters that have been referred to the licensee's or its holding company's Event Management Committee and which the Event Management Committee determined not to be reportable to ASIC under s 912D(1B) of the Act or to the Group's other Australian regulators.
Risksmart	Risksmart is the Group's system for recording, managing and escalating operational risk Events. This system commenced in November 2015, replacing an earlier system known as the Operational Risk Event Capture System (ORECS).
Significant Breach(es)	All matters, excluding those which are subject of the joint reporting exception, ¹¹ that have been referred to the licensee's or its holding company's Event Management Committee and which the Event Management Committee determined to be reportable to ASIC under s 912D(1B) of the Act.
Staff or Staff Member(s)	Persons employed by NAB and personnel made available to the Group's Wealth Licensees by NWMSL, a wholly owned subsidiary of NAB, under service arrangement contracts between the Group's Wealth Licensees and NWMSL.

9.2 Overview of the Event / Breach reporting policies and procedures

Under the present NAB Event Management Policy and NAB Event Management Supporting Materials (as adapted to meet the specific requirements of the Group's Wealth Licensees), the Event / Breach reporting policies and procedures broadly prescribe 7 steps, illustrated in the Event management lifecycle flowchart below.



¹⁰ Explanatory note: This interpretation applies the amended definition of Incident(s), amended to be described as Event(s). Events will comprise Breaches as well as other events that are determined not to be Breaches.

¹¹ That is, matters reported to ASIC or to the Group's other Australian regulators in response to a regulatory Notice issued on the Licensee or its Holding Company under the Act where the production is made for the joint purpose of also being a written report for the purposes of s 912D(1B) of the Act.

Each numbered step in this flowchart is summarised below.¹²

Step 1: Identification and capture

All Staff Members are responsible for identifying and capturing Events and/or Breaches, which must be entered into Risksmart. The business unit responsible for recording the Event and/or Breach is the business unit where the Event and/or Breach is first identified. All Events and/or Breaches must be recorded within five business days of the Event and/or Breach being identified.

Step 2: Assessment and investigation

Once identified, an investigation into the nature and extent of the Event and/or Breach will be conducted by the relevant business area. The investigation will be specific to the nature of the Event and/or Breach but will typically include investigation into: how the Event and/or Breach occurred; the root cause of the Event and/or Breach; any similar previous Events and/or Breaches; how the Event and/or Breach was identified; number of customers potentially impacted; all known and potential impacts on customers including the extent of any financial or non-financial loss; and any other matters specific to the Event and/or Breach.

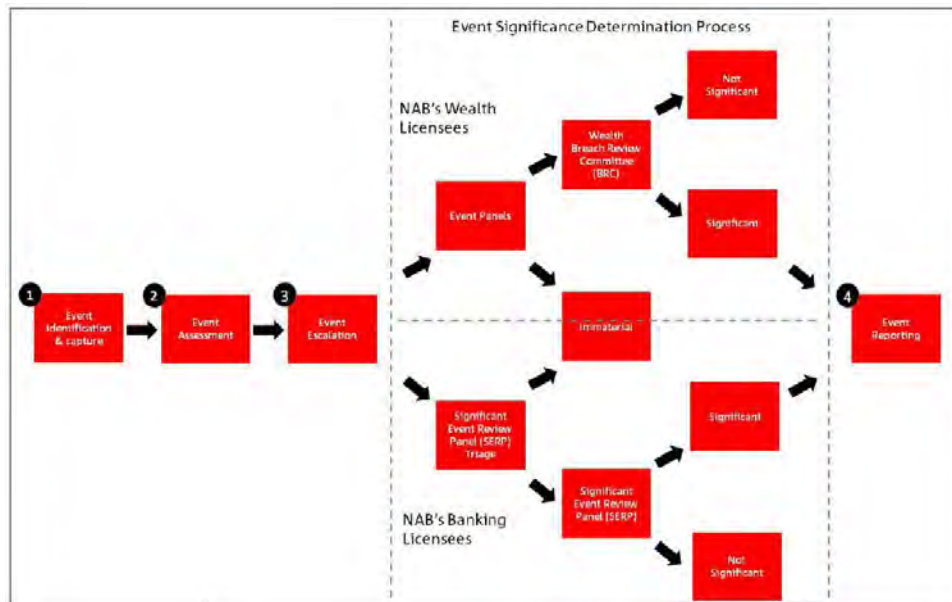
Whilst investigations may continue throughout the Event management and Breach reporting process, once sufficient information has been obtained, an assessment is made to determine whether the Event may be a Breach. An assessment of the Event and/or Breach is conducted by the business unit which first identified the Event and/or Breach. Where the Event and/or Breach originated in a different business unit than the business unit that identified it, responsibility for the Event and/or Breach will usually be passed to that business unit.

If an Event is assessed as a Breach, it must be escalated immediately by the business unit which first identified the Event, the business unit leader and the Management Assurance team to the relevant Risk team, as such Events may require reporting to an external regulator in accordance with strict time requirements. Breaches will follow the process depicted below (in Step 3 and Step 4) to determine whether they are significant and reportable.

¹² Whilst the Event management lifecycle is described in numbered steps, some steps can commence earlier than others – for example, Event Action Management (Step 5) and Event Analysis (Step 7) can commence as soon as the Event is identified. This occurs where immediate actions are required to mitigate further errors. Event analysis to identify previous similar Events or systemic issues occurs as part of the Event Assessment (Step 2), prior to Event Escalation (Step 3).

Step 3: Escalation

The diagram below illustrates the process by which Events are escalated and their significance is determined.



For the Group's Wealth Licensees, an Event Panel is convened after an Event has been identified and recorded in Risksmart to determine whether the Event requires escalation to the BRC. An Event Panel is a forum for determining whether an Event and/or Breach should be escalated to the BRC. Event Panels are attended by the Event Owner, or delegate, subject matter experts, as well as representatives from the Management Assurance, Risk, and Legal teams.

If the Event is not significant, the Event is not escalated to the BRC and is addressed in accordance with the NAB Event Management Policy, as adapted to meet the specific requirements of the Group's Wealth Licensees. Where there is insufficient information for the Event Panel to make a determination to escalate to the BRC, a further Event Panel is convened once sufficient information is obtained. An Event may also be escalated directly to the BRC without first going to an Event Panel. Where the Breach is escalated to the BRC, the business area responsible for managing the Breach notifies the BRC for inclusion in the next scheduled meeting. A BRC Verbal Update or BRC Breach Paper is prepared by the Event Owner with assistance from the Legal and Risk teams for consideration by the BRC. Details of the decision made by the BRC, including the reportability of the Event and/or Breach, are recorded in the "**BRC Determination Register**". Events which are determined by the BRC to be Significant Breaches are recorded in the "**Breach Register**".

As noted above, for certain Events involving Group-wide regulatory initiatives, Events involving the Group's Wealth Licensees may also be escalated to the SERP (discussed below).

For the Group's Banking Licensees, Events are first escalated to the relevant Risk team. If the Risk team assesses that the Event may meet regulatory reporting thresholds, it will then be escalated to a meeting held prior to a scheduled SERP meeting, attended by the SERP chair (or delegate), the SERP secretariat, and other representatives from various NAB business units, in order to identify any events that do not need to proceed to the SERP meeting (**SERP Triage Meeting**). The decision not to escalate Events to the SERP meeting is recorded in the "**No SERP Register**".

If the Event is not significant, including circumstances where the Event is not presented to the SERP Triage Meeting, it is not escalated to the SERP meeting and is addressed in accordance with the NAB Event Management Policy. If the Event and/or Breach is potentially significant, it proceeds to the SERP meeting.

Where the Breach is escalated to the SERP Triage Meeting or the SERP meeting, a SERP memorandum is prepared for presentation to and consideration by the SERP. The SERP then determines whether the Event and/or Breach is a Significant Breach or a Non-Significant Breach. If the Event and/or Breach is determined to be a Non-Significant Breach, it is addressed in accordance with the NAB Event Management Policy and usual business practices. If it is determined to be a Significant Breach, the SERP requests the Event Owner to prepare a submission to the appropriate regulator(s). The decision made by the SERP as to whether the Event and/or Breach is reportable to ASIC under s 912D(1B) of the Act, or to the Group's other Australian regulators, is recorded in the "SERP Register".

Step 4: Breach Reporting (submission to ASIC)

The relevant Event Management Committee determines the significance of a Breach, which constitutes "awareness" by the Licensee for the purpose of s 912D(1B) of the Act and commencement of the 10 business day reporting requirement.

For the Group's Wealth Licensees, once a Breach is determined by the BRC to be a Significant Breach, the Breach Report is prepared by the Event Owner, or their delegate, with assistance from the Legal and Risk teams. The Breach Report is approved by the Event Owner and the Risk, Legal, and Regulatory Strategy & Affairs teams. For Breaches involving MLCN, NULIS and/or PFS, the Breach Report is also approved by the Office of the Trustee.

For the Group's Banking Licensees, once a Breach is determined by the SERP to be a Significant Breach, a submission to the relevant regulator(s) is prepared by the Event Owner, or their delegate, with assistance from the Legal team. The submission is approved by the Event Owner and the Risk and Regulatory Strategy & Affairs teams. Details of the Significant Breach are recorded in the SERP Register.

Step 5: Event Action Management

Action plans are developed to mitigate the impact of the Event and/or Breach. The development of action plans can commence as soon as the Event and/or Breach is identified. For example, actions to stop further instances of the Event and/or Breach are implemented as soon as possible. Action plans include rectification and long term actions to prevent recurrence of the Event and/or Breach; remediation and correction of the issue; addressing process issues; addressing control gaps or inefficiencies; and coaching or consequence management.

Action plans are recorded in Risksmart, with the exception of any consequence management where a Staff Member's conduct gave rise to the Event and/or Breach. This is retained by the Staff Member's People Leader (a Staff Member with one or more direct reports) and in some cases, the Group's Workplace Relations team.

Step 6: Event Approval

Approval of an Event by the Event Owner signifies that at the date of approval:

- the Event record is complete, accurate and up to date in accordance with the NAB Event Management Policy; and
- the Event has been escalated to the appropriate levels of management.

An Event is only considered finalised in Risksmart once all financial impacts have been finalised and actions are completed.

Step 7: Event Analysis

As summarised in Step 2 above, Events and/or Breaches are analysed to identify previous similar Breaches and systemic issues as part of the investigation into a specific Event and/or Breach. Internal sources of information are also reviewed to ensure Events data is complete.

Event and/or Breach information is further analysed by the Event Owner to identify systemic issues, trends or other themes. For the Group's Wealth Licensees, reports are produced monthly by Management Assurance and provided to senior management for discussion at regular risk management forums. The Management Assurance and Risk teams will also review the appropriateness of the management of the Event and/or Breach through continuous oversight activities and in providing approval of the finalisation of the Event and/or Breach in Risksmart.

9.3 Changes to the policies and procedures over time

The current Event policies and procedures for reporting in compliance with s 912D of the Act (as described above) were adopted in substantially their current form over the period from late 2012 to early 2013.

Previously, in the period from 2006 to late 2012, the Group's Wealth Licensees had in place a different regime known as the "MLC Event Capture Policy" (note this was renamed the MLC & NAB Wealth Event Capture Policy in 2010), which prescribed the event capture process and supporting policies and procedures for managing Events, a subset of which were reported in compliance with s 912D of the Act. Reviews of these policies were typically undertaken on at least an annual basis, including to address any changes to legislation and regulations.

In 2013, there was a concerted focus on uplifting risk management practices within the Group's Wealth Licensees. This included engagement of PricewaterhouseCoopers (**PwC**) to undertake a review of the adequacy of the Group's Wealth Licensees' Event management and Breach reporting processes in accordance with regulatory guidance, including ASIC Regulatory Guide 78 (**RG78**), and relevant licence conditions.

Management undertook a number of actions in the 12 months to May 2014 to improve Event management and Breach reporting processes. These included:

- the establishment on 26 August 2013 of a Management Assurance function for each Division within the Group to support and facilitate management's ownership of risk. Event management monitoring was undertaken by Management Assurance, with oversight from the Risk team;
- the establishment in July 2013 of an Events Steering Committee chaired by the Executive General Manager, Wealth Operations to oversee and accelerate the escalation, reporting, remediation and closure of outstanding Events for the Group's Wealth Licensees;
- the conducting in the 12 months to May 2014 of a stocktake of all outstanding Events recorded in Risksmart. Events were classified and prioritised for closure and/or rapid escalation to the BRC;
- the sending of email communications to all accountable business leaders across the Group's Wealth Licensees reaffirming expectations and accountabilities for Event management; and
- the implementation of a number of enhancements to the NAB Event Management Policy and practices, including: documented sign-off process of contents of all Breach Reports to regulators; Breach Report preparation to include access to the Event Management Committee papers and minutes; Chief

Risk Officer assuming the role of Chair of the BRC; and encouraging early escalation of potentially Significant Breaches.

In August 2015, PwC observed the following key improvements in the Group's Wealth Licensees' Event management and Breach reporting processes:

- tightening up of the BRC charter and processes enabling speedier communication of decisions taken to those who need it, and improved documentation around the rationale for decisions taken on whether or not to report to ASIC;
- investment in developing and rolling out specialist Event management and Breach reporting training sessions;
- development of guidance and documentation on the entity and licence context within the Group's Wealth Licensees in order to enable more accurate assessments of Event impact;
- continued focus and a "tone from the top" encouraging the early escalation of Events; and
- greater monitoring and oversight of Events through reporting of trends and systemic issues and reviews of the process performed by Management Assurance and Risk teams.

Throughout 2016, the Group's Advice Licensees implemented a number of actions to ensure that Events are escalated to the BRC in a timely manner, namely:

- implementation of a work in progress process to manage the pipeline of Events for consideration and determination by the Event Panel;
- confirmation of the Event Panel process for capturing complaints as Events, to enable determination of escalation;
- active management of Events within the business, via regular reporting to senior executives and leadership teams to manage the number of Events and outstanding actions;
- training of relevant Staff Members to ensure Events are logged and fully addressed via the Event management process; and
- implementation of enhanced Events management.

In relation to NULIS, from November 2017, a new Error Remediation Policy was implemented in relation to error recognition and remediation principles for fund members. The policy adopts the common principles and remediation approach of the NAB Event Management Policy and NAB Event Management Supporting Materials. Where additional or alternative trustee governance requirements exist, they are set out in this policy.

In relation to the Group's Banking Licenses, through continuous improvement practices and the regular policy review cycle, the Group's Banking Licensees made several changes to the NAB Event Management Policy and Breach reporting process throughout 2014 and 2015, to ensure that the Group's Banking Licensees met enhanced regulatory expectations and industry benchmarks. In particular, the following changes to the SERP processes were implemented in September 2015:

- introduction of a defined SERP membership and mandate to reduce the potential for inconsistent application of the 'significance' criteria. In particular, the Chair of SERP is now the General Manager Regulatory Strategy and Affairs, or delegate. Previously, the Chair was the business line Chief Risk Officer, or delegate;

- increase in the frequency of the SERP meetings to eliminate delays and support the Group's Banking Licensees in meeting required timelines; and
- introduction of a Secretariat function to enhance document retention practices and ensure consistency among applicable Breach records such as minutes and content of Breach papers.

Abbreviations

Abbreviation	Meaning
AFSL	Australian Financial Services Licence
AML/CTF	<i>Anti-Money Laundering and Counter-Terrorism Financing Act 2006</i> (Cth)
APRA	Australian Prudential Regulation Authority
ASF	Adviser Service Fee
ASIC	Australian Securities and Investments Commission
AUSTRAC	Australian Transaction Reports and Analysis Centre
CCMC	Code Compliance Monitoring Committee
Code	Code of Banking Practice
Corporations Act	<i>Corporations Act 2001</i> (Cth)
FY	Financial Year
Group	NAB and its presently controlled entities
MLCL	MLC Limited
MLCN	MLC Nominees Pty Limited
NAB	National Australia Bank Limited
NULIS	NULIS Nominees (Australia) Limited
PFS	PFS Nominees Pty Limited
PFSL	Plum Financial Services Limited
PSF	Plan Service Fees
Review of the Four Major Banks	House of Representatives Standing Committee on Economics Review of Australia's Four Major Banks