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

PART II OF ANZ'S RESPONSE TO THE COMMISSION'S FURTHER LETTER DATED 2 FEBRUARY 2018

1. GENERAL INFORMATION: QUESTIONS 1 TO 6

A. Question 1: What are the functions, powers and resources of the Customer Fairness Advisor referred to in [4.17] and the Customer Advocate referred to in footnote 3?

Customer Fairness Advisor

1.1 The Customer Fairness Advisor reports directly to ANZ's CEO, Shayne Elliott. The Customer Fairness Advisor role was established in December 2016. The role is currently filled by former Commonwealth Ombudsman Colin Neave AM. The Customer Fairness Advisor's role is to provide frank and independent assessments of the fairness of ANZ's products and services to the CEO and to divisions and business units, and advice about how any issues arising from those assessments should be addressed. He assists, on his own initiative, in guiding and informing ANZ's decision-making to ensure ANZ's retail and small business customers are treated fairly. He is also a member of ANZ's Responsible Business Committee and provides regular updates to the Board.

1.2 The key functions of the Customer Fairness Advisor include:

(a) advising on customer remediation including the development of the Customer Remediation Principles (referred to in [4.17] of ANZ's submission to the Commission dated 29 January 2018 (**January Submission**));

(b) reviewing and providing feedback on products and services;

(c) engaging with external consumer representatives; and

(d) representation on the Executive Remediation Governance Forum discussed in [1.27(c)] below.

1.3 The resources required by the Customer Fairness Advisor depend upon the particular functions being performed by him. The Customer Fairness Advisor requests resources from ANZ's divisional business units as necessary. The Customer Fairness Advisor has unfettered access to, and engages with, relevant business units in reviewing, discussing and advising on products and practices within ANZ, without the exercise of formal powers.

Customer Advocate

1.4 ANZ established the Office of the Customer Advocate in 2002 to impartially review disputes involving retail and small business customers in Australia, where the customer is not satisfied with the outcome of ANZ's internal dispute resolution process. In 2012, its scope was expanded to include customers of Wealth. The Customer Advocate is also engaged on a range of other matters, including broader community engagement, sensitive product and policy changes, remediation, and in some instances complex terminations of customer relationships.

1.5 In cases where a dispute arises, ANZ customers may, but are not required to, seek a review by the Customer Advocate before escalating the matter directly to a relevant external dispute resolution scheme or body. On some occasions, ANZ refers particularly difficult or sensitive matters directly to the Customer Advocate for resolution.

1.6 ANZ is bound by the Customer Advocate's recommendation in all cases. Customers are not so bound, and if dissatisfied with the Customer Advocate's recommendation may refer the complaint to the relevant external dispute resolution body or take legal action.

1.7 The Office of the Customer Advocate currently consists of eight staff, including the Customer Advocate. Five staff are dedicated to Australia division disputes and two staff are dedicated to Wealth disputes, including insurance. The Customer Advocate is able to call on the expertise of various internal specialists as required. In 2017, the Customer Advocate completed 1,128 general banking product reviews and 423 insurance, superannuation and investment reviews. The Customer Advocate operates separately from ANZ's day-to-day business operations and reports directly to the Group Executive of Australia division.

B. Question 2: What are the steps ANZ has taken to invest and improve the Operational Risk Management and Compliance Framework and its supporting systems referred to in [4.21]?

Operational Risk Management and Compliance Framework

1.8 ANZ has a single group-wide Operational Risk Measurement and Management Framework (**ORMMF**), which comprises policies and guidance in relation to operational risk and compliance, and is designed to protect the interests of ANZ and its customers.

1.9 Consistent with the approach taken by the Basel Committee on Banking Supervision, ANZ defines "operational risk" as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Within this framework, a "compliance event" is a failure by ANZ to meet a regulatory or legislative obligation, a voluntary code or an obligation articulated in an ANZ policy.

1.10 The ORMMF has three key aspects:

(a) <u>The promotion of a strong risk culture in ANZ.</u> This involves employees throughout the organisation understanding the importance of doing the right thing by ANZ's customers, acting with integrity, managing risks and being compliant. Steps ANZ takes to foster a strong risk culture include those set out in [4.19] and [4.20] of the January Submission.

(b) <u>A well-defined risk structure.</u> ANZ employs a "three lines of defence" model in the implementation of its risk management and compliance framework, which is an APRA requirement. First, the frontline business units are responsible for managing risks arising from their operation, assisted by assurance personnel embedded within the business to help identify and manage risk. Secondly, risk/compliance functions provide a second look at, and review and challenge business units on, compliance issues and their approach to risk management. Finally, ANZ's internal audit function conducts independent reviews dealing with compliance issues and failures in control. ANZ also has dedicated risk committees at various levels of the organisation, including product committees, divisional risk committees, an executive-level operational risk committee (**OREC**) and the Board and Board Risk Committee.

(c) <u>Consistent policies and procedures.</u> ANZ's policies and procedures set out ANZ's processes for identifying and monitoring its obligations, key risks, controls, regulatory changes and external events. The policies and procedures also set out the mechanisms for ensuring that risks and events are managed proactively and transparently, with responsibility being placed on all employees to detect, report and escalate incidents.

1.11 As mentioned in [4.13] of the January Submission, ANZ acknowledges that continuous improvement is required in the supervision, and associated processes, necessary to ensure an appropriate, organisation-wide focus on reducing the risk of conduct of the kind described in the January Submission.

1.12 To protect the interests of ANZ and its customers, ANZ has taken steps to invest in and improve its operational risk management and compliance framework and its supporting systems (including ANZ's policies, systems and processes of whistleblowing, complaints handling, and monitoring for risk and compliance issues). Those steps include:

(a) In 2008, ANZ established the "risk is everyone's responsibility" principle, to promote risk awareness within the bank, particularly within the frontline business units (providing the first line of defence). Over the period since 2008, the principle has been refreshed and developed through the introduction of new policy documents, staff training, leadership toolkits and internal and external communications.

(b) Also in 2008, ANZ revised its whistleblower protection policy, established an independent whistleblower hotline maintained by Deloitte and clarified the roles and responsibilities of ANZ's Whistleblower Protection Officers, who are to receive, act on and report disclosures, and engage assistance to undertake investigations.

(c) In 2010, ANZ commenced a program with a view to developing its operational risk management in line with evolving industry practices. This led to the implementation of the ORMMF in 2012, which standardised and enhanced the identification of key risks, key controls and treatment plans across each of the divisions and underlying business units. The program was the beginning of a material change to the way in which operational risk is managed at ANZ. It included new and redesigned processes and systems, supported by more specialised and trained teams of people. Key measures included:

(i) Processes to identify and assess key controls in place to mitigate key risks. In particular, at least annual formal and consistent testing and reporting on the effectiveness of key controls was introduced. ANZ also established processes to better record in risk systems the obligations with which it is required to comply and how ANZ complies with those obligations, linking them to key risks.

(ii) A requirement on the frontline business units to undertake both annual and ongoing reviews of the changing business environment to assess impacts on residual risk (the level of risk which remains after key controls are applied) with: (i) obligations to undertake remediation in respect of ineffective controls; (ii) monitoring by the relevant risk forums and divisional risk committees, supported by risk and control specialists and overseen by the second line risk function; and (iii) formal escalation of key risks. Following the implementation of the ORMMF, all high and extreme residual risks were required to be escalated to the relevant business executive for approval, as appropriate, and provided to the divisional risk committees and OREC for oversight, review and challenge. The requirement for approval increased accountability for risks and enhanced oversight of business unit risk assessments and the tracking of plans formulated to address those risks.

(iii) The introduction of a new methodology for key risk indicators (**KRIs**) and the reporting of KRIs relative to tolerance levels. KRIs are metrics that relate to a specific risk and demonstrate a change in the likelihood or consequence of the risk occurring. KRIs provide an early signal of increasing risk exposure. Where KRIs also breach Group-wide risk appetite, this is separately reported to the Board Risk Committee.

This framework is intended to drive continuous improvement in the management of risk and compliance issues across ANZ.

(d) In 2011, ANZ strengthened its whistleblower policies, including by: (i) appointing whistleblower "champions" in each country, and in selected business units, to promote awareness of ANZ's whistleblower policy through regular communications and training, and to provide information and assistance to those wishing to make a disclosure; and (ii) introducing bi-annual reporting to the Audit Committee and OREC.

(e) In 2012, ANZ commenced a project to establish a new operational risk capital model and scenario analysis process to measure operational risk, which led to a new APRA-accredited model in 2015. The model, in particular, provided additional structure to the way in which ANZ identifies and manages the risk to the delivery of fair customer outcomes.

(f) Also in 2012, ANZ introduced a mechanism to measure how the divisions (and underlying business units) had implemented, and were practically operating, the ORMMF. The mechanism required business units to prepare and implement action plans to address any identified concerns, which were then tracked and reported to management at both the divisional and Group levels from 2013.

(g) In 2013, ANZ implemented a new compliance operating model to highlight the importance, and increase the visibility, of compliance across the bank. This included the appointment of an Executive Chief Compliance Officer and investment in additional compliance and financial crime prevention personnel.

(h) Between 2013 and 2015, ANZ made a substantial investment in an ANZ-wide intranet system to further manage operational risk and compliance. This created a single system, COR, to capture risks, controls, treatment plans, events and obligations, providing the ability to analyse, escalate and report information across the bank.

(i) Between 2013 and 2016, ANZ made substantial investments in its financial crime prevention infrastructure. This included substantial investments in enhanced capabilities for monitoring and alerting suspicious transactions, and improvements to detection capabilities in ANZ's sanctions monitoring system.

(j) Between 2013 and 2017, ANZ engaged expert consultants to undertake reviews of the effectiveness of the ORMMF as it applies to Wealth and to assess risk culture.

(k) Between 2016 and 2017, ANZ further updated its whistleblower policies and procedures and refreshed its whistleblower awareness campaign. Measures included extending the policy to third party vendors and franchisees in Wealth, and the appointment of senior executives as whistleblower champions. The awareness campaign resulted in an increase in the number of disclosures, with 121 disclosures made in 2017, up from 71 in 2016.

(l) Since 2016, Australia division has made a number of changes to the way it analyses complaints including improved use of data to identify potential trends and possible areas for improvement. It now reports monthly to the Group Executive of Australia division on these matters.

(m) In 2017, Australia division enhanced its Customer Resolution and Complaints Quality Framework. This involves coaching and assessment of complaints personnel and enhanced recording and reporting mechanisms. These mechanisms assist to identify critical errors that may impact ANZ's customers and its business and provide insights to support continuous improvement.

(n) In 2017, Wealth implemented a number of measures to further strengthen its risk culture, including: the introduction of a risk culture update to be made annually to the Boards of the Wealth entities; the inclusion of risk culture as a standing agenda item to be addressed at each Wealth Board meeting; and the inclusion of a risk culture section in Internal Audit Quarterly Reports to the Wealth Board Audit Committees.

C. **Question 3: What are the ways in which ANZ is simplifying its products, business structures and systems to reduce the risks of complexity and business changes causing or permitting misconduct or failures to meet CSEs, referred to in [4.22]?**

1.13 As noted in [4.12] of the January Submission, ANZ acknowledges that, over time, delivering the banking and financial services that customers expect has led to complexity within ANZ's systems and processes, and this is a potential cause or contributing factor to misconduct and failures to meet CSEs. ANZ has embarked on a process of reviewing and simplifying these aspects of its business. This serves a range of purposes including reducing risks to ANZ and its customers. ANZ is: simplifying and reducing the number of products it now offers; simplifying its systems and processes, including by modernising its technology; and simplifying its portfolio of businesses through divestments and closures. Each of these is discussed below.

Simplifying and reducing ANZ's range of products

1.14 The complexity and risk posed by a product depends on the nature of the product and the accompanying systems and processes for delivering it to customers. Accordingly, products, systems and processes need to be considered together.

1.15 One of the key priorities of ANZ's approach to simplification is to review and, where appropriate, reduce the range of products it offers. Simplification is often a, but not the only, reason for decommissioning products.

1.16 During 2017, Australia division decommissioned 97 products (approximately 30% of the division's products as at the start of that year). This included 27 home loan products and 24 consumer deposit products. In addition, 68 products were decommissioned across Australia division in the three years prior to 2017. Australia division is establishing a simplification centre of expertise from April 2018, focused on the further simplification of products and processes.

1.17 In Institutional division, as at 2017, approximately 35% of all products it offered had either been decommissioned within the previous two years or identified for decommissioning. This included the Markets business exiting Equity Trading and withdrawing from the electricity, base metals, iron ore and coal components of the Commodities product line.

1.18 In Wealth, examples of product simplification in recent years include the transition of default superannuation customers from legacy superannuation products (see [5.71(c)] of the January Submission).

Simplifying ANZ's systems

1.19 ANZ continues to modernise its technology portfolio and simplify its IT systems, including hardware, software, functions and rules for implementation. This will help to reduce ANZ's reliance on large and legacy technology systems which are complex and can be difficult to change. In the past, this complexity has contributed to coding errors, which in turn have contributed to some of ANZ's failures. The current process will move ANZ to an architecture that is more flexible and consists of a number of discrete but linked components. This will make ANZ's technology portfolios (ie technology initiatives, projects and ongoing IT services) easier to change, giving greater visibility over the impact of the change, and will also provide automation capabilities that will help to reduce error risk.

1.20 In order to modernise ANZ's technology portfolio, it is sometimes necessary to develop and introduce new IT/technology systems. ANZ's Group Technology function has progressively improved software development and testing capabilities over the past five years to enhance the quality of new systems deployed.

1.21 In addition to the examples given in the January Submission (see [5.71(c)], [5.71(e)] and [6.100(e)]), further illustrations of system simplification and modernisation include:

(a) Development of a new ANZ application (available from 9 February 2018), which has merged ANZ's GoMoney and Grow applications and in so doing has strengthened security controls (which reduces the risk of customers being impacted by fraud).

(b) The decommissioning of eight legacy systems in Australia division across the Esanda and Asset Finance business and the branch network.

(c) In Institutional, one system in the Markets business was recently decommissioned and there has been consolidation in the pricing systems used.

(d) Systems that process new applications from ANZ's home lending channels are being consolidated into one home loan application system, which will use a single, common credit decision platform.

Simplifying ANZ's processes

1.22 ANZ has also undertaken a number of measures to simplify its processes to, among other things, reduce the risk of misconduct or conduct falling below CSEs. By way of example:

(a) From March 2015, the process for recording information obtained from customers in an A-Z Review (a conversation with a customer in an ANZ Branch about their banking needs) has been automated, ensuring that a clear record is kept of the conversation and that existing customer data can be pre-populated to reduce data entry errors.

(b) In April 2017, a new loan origination system was rolled out to bankers in Small Business, replacing a legacy system. The new system uses a high level of pre-populated data from ANZ's core systems, which reduces the risk of manual data entry errors and allows for the electronic upload and capture of documents.

(c) Australia division has just modernised its Customer Feedback Management System. This replaces a legacy application which had multiple manual processes, complicating the process for tracking the resolution of customer issues. The new system provides a single place for ANZ staff to enter, track and resolve customer complaints in a more timely and efficient manner by using automated workflows.

(d) In 2017, a new loan origination system was also rolled out to bankers in Institutional division. The manual management of workflow was replaced by a digital workflow management tool which digitised and automated the creation of Credit Memoranda and Letters of Offer. In time, this system will be integrated with a number of other new and existing systems driving further standardisation and error reduction.

Simplifying ANZ's portfolio of businesses

1.23 In 2015, ANZ decided that exiting low-return and non-core businesses should be one of the Group's key priorities. ANZ has since increased its focus on simplifying its portfolio of businesses. One reason for this is to reduce operating risks which, in turn, reduces the risk of misconduct or conduct falling below CSEs.

1.24 Examples of recent transactions which have contributed to the simplification of ANZ's Australian business include:

(a) the sales of Esanda Dealer Finance and ANZ Trustees;

(b) contracts with third parties to take over the provision of services to ANZ customers (for example, the contract with CMC Markets to take over the provision of services to customers of SIL (see [5.7] of the January Submission) and the contract with SuperIQ in relation to SMSF administration services); and

(c) the announcement in late 2017 by ANZ of sales of its Life Insurance and P&I product manufacturing businesses and the dealer groups (expected to be completed in 2018, subject to regulatory approvals).

1.25 ANZ has also been simplifying its portfolio of businesses outside Australia. This aspect of the simplification process allows ANZ's senior management to increase their focus on ANZ's core businesses, including in Australia. Recent actions that have been completed or announced to simplify ANZ's portfolio include:

(a) exiting retail banking and wealth distribution businesses in eight geographies in Asia;

(b) exiting the business of new lending to small and medium enterprises in five geographies in Asia;

(c) sale of ANZ's investment stakes in financial services companies in Vietnam, China and the Philippines; and

(d) sale in New Zealand of a medical insurance business and an asset finance business (however the latter transaction has not been completed as yet due to a regulatory approval required in New Zealand).

D. Question 4: What are the steps ANZ has taken in its move towards a more centralised and systematised approach to remediation within Australia division?

1.26 Australia division has made a number of changes to the way it runs and governs customer remediation projects to support its move to a more centralised and systematised approach to help address its failure to meet CSEs due to delays in remediation, as identified in [6.39] of the January Submission.

1.27 The steps ANZ has taken in its move towards a more centralised and systematised approach to remediation within Australia division have involved:

(a) The development over time of specialisation in remediation which, in July 2016, was formalised with the establishment of a remediation project team, which is dedicated to, and responsible for, delivering large remediation and industry reform projects under the direction of Steering Committees. This has helped to ensure that prioritisation and resource-allocation decisions take into account all active and upcoming remediation projects.

(b) In December 2016, ANZ established the role of Customer Fairness Advisor. As discussed at [1.2], one of their key functions is to advise on customer remediation.

(c) In August 2017, the Executive Remediation Governance Forum was established (the **Remediation Governance Forum**), which includes ANZ's Customer Fairness Advisor. Its aim was to create a divisional approach to remediation and increase the visibility of remediation issues. In addition, the Remediation Governance Forum provides a central, high level body with oversight of remediation projects being carried out within Australia division.

(d) Also in 2017, ANZ created a central remediation resource run by the remediation project team, which allows for sharing of knowledge and an increased level of consistency across remediation projects. The resource:

(i) provides clear visibility for business stakeholders on the progress of remediation projects and any hurdles faced;

(ii) provides a consolidated view of risks, assumptions and dependencies;

(iii) maps out the critical activities that need to be executed to remediate a customer; and

(iv) creates a physical remediation hub to demonstrate progress and lessons learned to business stakeholders and team members.

(e) A remediation framework has recently been developed for use across Australia division (the **Framework**). Its purpose is to guide the approach to remediation and to contribute to a consistent approach. It provides guidance to, for example, the approach to remediation design and data analysis, a methodology for calculating compensation to customers, and a general approach to customer engagement and communication. The Framework was introduced at the end of January 2018.

1.28 ANZ is currently establishing a Responsible Banking team which, from April 2018, will have approximately 130 people dedicated to large customer remediation programs across Australia division. The Responsible Banking team will capitalise on the benefits of centralisation, continuing and building on the work of the remediation project team as described above. ANZ has appointed a dedicated executive for the Responsible Banking team from April 2018 onwards.

1.29 Australia division also seeks to proactively provide regular updates to ASIC on its progress in remediating impacted customers. Updates are generally provided during a quarterly remediation update meeting with ASIC.

E. Question 5: What are the changes ANZ is considering to its event identification, recording and reporting systems and processes to facilitate the more efficient investigation and handling of events, referred to in [8.8]?

1.30 As noted in the January Submission at [8.4], ANZ has in place systems, policies and processes to facilitate the identification, recording, investigation and, where appropriate, escalation and reporting of events (which include but are not limited to significant breaches for the purpose of s 912D of the Corporations Act).

1.31 Within ANZ, such events broadly cover operational risk events and compliance events (see [1.9] above). Staff are required to record all such events in ANZ's COR system, identifying both their operational and compliance consequences. COR underpins the ORMMF and serves a number of functions in relation to the reporting, management and monitoring of key risks and events.

1.32 ANZ is concerned about the time taken to investigate matters in order to determine whether they are significant breaches for the purpose of its s 912D reporting obligations (see [8.5] of the January Submission). This fits within a broader concern about delays in event identification, recording, reporting and (where relevant) escalation more generally, including whether features of its COR system are contributing factors. There are a number of changes presently being considered by ANZ that are intended to address these issues.

1.33 ANZ has recently commenced a project, one of the purposes of which is to consider improvements to its event identification, recording and reporting systems. As it is in its infancy, having only recently commenced its scoping stage, the potential changes being considered in the context of the project are not yet fully developed. It will be necessary for the project to review and analyse ANZ's current systems and processes before concrete recommendations can be made.

1.34 Other proposals or changes, which were identified separately from that project, are more advanced. For example, ANZ is considering a number of changes to its COR system. The primary purpose of these changes is to make the system more user-friendly and therefore more effective by improving quality of data about events recorded in COR. This is intended to facilitate managing each event and monitoring and improving ANZ's event management system as a whole.

1.35 ANZ is also considering the introduction of new data entry features designed to ensure that data entered by employees more reliably reflects relevant aspects of the events being recorded. Examples include:

(a) New fields and drop down menus to ensure consistent recording of regulator engagement and the consideration of breach reporting. Previously, these matters were frequently recorded in COR but this was not done systematically, in a consistent form, or in a way that facilitated the carrying out of efficient searches.

(b) Mandating completion of fields regarding the discovery and impact of events before a record on COR can be "closed". These changes are intended to improve the quality of the data kept by ANZ relating to those matters.

1.36 ANZ also proposes to remove a number of fields from COR which have been identified as unnecessary or potentially confusing for users, and enhance "guidance notes" within the data entry screen, to support a more consistent interpretation amongst users about the type of data required by each field.

1.37 It is intended that these changes to the COR system will be supported by an internal staff communication campaign and staff training on the new features. The precise content of this campaign and training is still to be developed.

1.38 ANZ is also developing, for bank-wide introduction, an operational risk and compliance "dashboard" which will supplement existing COR reporting and achieve increased accessibility and business use. The intention is to provide relevant staff with easily accessible real-time (or close to real-time) business risk data, in the form of a subset of COR data, extracted daily and presented in a new form. One purpose is to encourage accountability for data quality and timeliness of reporting, by making apparent how and when events have been recorded, reported and escalated. Previously, this information has only come from manually prepared reports, on a periodic basis, from Assurance teams.

1.39 The dashboard is still undergoing testing and being refined prior to bank-wide implementation. ANZ is presently working on the content of a campaign and training to support a bank-wide launch.

F. **Question 6: What are the changes that ANZ is considering in order to clarify the requirements for internally reporting compliance breaches, referred to in [8.10]?**

1.40 The reference in [8.10] of the January Submission to changes that "might be made in order to clarify the requirements for internally reporting compliance breaches" is principally a reference to aspects of the project described above. However, it also refers to staff communication campaigns and training for this purpose. Examples include the proposed training referred to at [1.37] and [1.39] above, which will also serve to reinforce to staff ANZ's requirements in relation to reporting and escalation of compliance breaches.

1.41 As noted above at [1.33] to [1.39], the project is presently in its scoping stages. However, the changes that may be considered include clarifying or adjusting the roles and responsibilities of staff in the event identification, recording and reporting processes, introducing more formal "lessons learned" meetings following the occurrence of particular events, and considering further changes to the COR system and other processes to make clearer to users what they must do to report, and where appropriate, escalate, a compliance event.

2. **CONSUMER LENDING: QUESTIONS 1 TO 4**

A. **Question 1: What are the processes for investigating suspected fraud by third party intermediaries, referred to in [6.48]? Have these changed over the last three years, and, if they have, how? Please include in this answer further detail on the process changes referred to in [6.53].**

2.1 In the ordinary course, during the period referred to in [6.48] of the January Submission, once suspected fraud by a third party intermediary was identified, it was investigated by a specialist fraud investigator within ANZ. That investigation could involve any one or more of the following actions depending on the circumstances:

(a) [redacted];

(b) [redacted]; and

(c) [redacted].

2.2 Additionally, as indicated in [6.48] of the January Submission, any third party intermediary who admits, or is proven to have engaged in, fraudulent behaviour is disaccredited and his or her details are included upon an ANZ internal list of banned third party intermediaries. This list is consulted as part of the process of investigating whether new third party intermediaries should be accredited to introduce loan applications to ANZ. [redacted]

2.3 In the last three years, the process described above has changed in that, once suspected fraud is identified, the broker is now placed on a watch list and loan applications submitted by them are subject to additional scrutiny by ANZ fraud specialists, pending the outcome of the fraud investigation. This measure was formalised in late 2015.

2.4 In addition, the asset finance team has implemented a number of process changes which are summarised in [6.53] of the January Submission and described in further detail below:

(a) Suspension or heightened monitoring of brokers suspected of fraud.

Where the asset finance team has strong grounds for suspecting that a broker has engaged in fraud, the team can suspend the broker immediately, pending the outcome of an investigation.

[redacted]

(b) Creation of a broker forum and clarification of ANZ's broker consequence management framework.

This is overseen by an internal ANZ forum established in March 2017 to monitor and supervise asset finance broker activity. Where non-compliance is identified in the review process, the consequence management framework helps to determine the appropriate outcome, which may be: (a) termination of the broker's accreditation, for the most serious cases of non-compliance; (b) suspension, for serious cases of non-compliance where further investigation is required; (c) penalty (eg a financial penalty), for moderate breaches; and (d) education, for minor breaches.

(c) Use of data analytics.

[redacted]

[redacted]

(d) Training for brokers including responsible lending.

Since September 2016, ANZ requires asset finance brokers who submit applications to it to undertake a training program online which includes a mandatory module on their responsible lending obligations. Brokers must complete and pass an assessment on the portal in order to gain accreditation with ANZ.

(e) Customer interview guide.

Asset finance brokers submitting applications to ANZ must complete a customer interview guide, which is signed by both the broker and the customer. This process has been in place since July 2016. The customer interview guide requires the broker to ask for and document information relevant to understanding the customer's needs and objectives.

(f) Enhanced training for relevant ANZ staff to increase fraud detection skills.

ANZ has improved and increased the training of its loan application assessment and settlement officers, in areas including fraud detection. Credit coaches conduct regular sessions with the team to address issues identified in reviews.

(g) Additional application flags.

In January 2018, ANZ introduced additional flags within the application system. The flags are triggered when there are inconsistencies with information provided within the application process.

2.5 In addition, Australia division has made further improvements to its fraud monitoring and investigation processes in its Retail Broker business. These improvements include:

(a) The continual refinement of existing fraud filters and the introduction of new, additional fraud filters, which are applied to all new home loan applications, to screen for anomalies in information provided to the bank. The ANZ Fraud Operations team then manually reviews any parts of the home loan applications identified by the filters as high risk or suspicious.

(b) The rollout of a revised Fraud Management process in May 2017 to provide clearer accountability across ANZ for decision making on consequence management, and impose specific actions and time parameters for third party aggregators when a suspected fraud or misconduct incident occurs in respect of a home loan application submitted by one of their brokers.

(c) The implementation in September 2017 of enhancements to ANZ's file review process in respect of home loan applications referred to ANZ by retail mortgage brokers. [redacted] Files are reviewed to check the adequacy of inquiries into customer requirements and objectives and add an additional level of scrutiny.

B. **Question 2: What are the steps ANZ has taken in the past to remediate customers where ANZ has not complied with its responsible lending obligations and the circumstances in which such remediation was considered "appropriate" or not appropriate, referred to at [6.58]?**

2.6 Where ANZ has investigated a complaint and identified that it has not complied with its responsible lending obligations, ANZ is guided by the FOS approach to remediation which is contained in the FOS guide, "Responsible Lending Obligations and Maladministration in Lending". Under this approach, the focus is on returning the customer to the position they would otherwise have been in. This includes: (a) reimbursing fees and interest incurred in relation to the loan and, depending on the use of the funds, a further possible adjustment for related losses or gains; and (b) reimbursement of the costs of purchasing or selling a security property, which may be offset by rental income derived by the borrower.

2.7 When it is the subject of an adverse outcome by the FOS, ANZ remediates customers in accordance with the recommendation of the FOS. A table of these cases is provided in the annexure to Part I of this response. The cases listed include FOS outcomes identified by ANZ or determined after 1 January 2013. In some instances, the conduct in question pre-dates the application of the responsible lending obligations in the NCCP Act applying to ADIs. These cases, as well as the small business lending cases, have nevertheless been included in the table because they were subject to an adverse finding by FOS under its Terms of Reference.

2.8 Additionally, in some cases, where customers find themselves in financial difficulty even after being remediated, ANZ's hardship team assesses the customer's financial position and seeks to tailor a short- or long-term solution to provide further financial relief. This may include reduced payments, repayment "holiday" periods or loan restructures (including life tenancies).

C. **Question 3: What are the initiatives that ANZ has implemented to enhance its policies, systems, processes and training relating to the collection and verification of information from consumers as part of its responsible lending practices, referred to in [6.59]?**

2.9 ANZ has implemented a number of initiatives to enhance its policies, systems, processes and training relating to the collection and verification of information from customers. The key initiatives implemented by ANZ are set out below.

2.10 Many of these initiatives have been developed as part of ANZ's Retail Lending Practices Continuous Improvement Program (**RLP-CIP**). The RLP-CIP was formed in early 2017 to take a division-wide approach to responsible lending improvement opportunities. The RLP-CIP has a multi-disciplinary team consisting of representatives from each distribution channel and support function (legal, compliance, credit risk) across the division.

Interview guide

2.11 In January 2017, ANZ launched an enhanced home loan interview guide to be used by its bankers in its proprietary sales channels (branch network, call centres and ANZ mobile lenders). The enhancements were targeted at better capturing customers' requirements and objectives for a home loan as well as better understanding their product preferences and any foreseeable changes to their financial situation.

2.12 In addition to the work on the industry interview guide for third party intermediaries discussed in section 2D of this response, ANZ introduced the ANZ Guiding Principles for retail brokers in September 2017, to provide more detailed guidance about ANZ's minimum expectations in regard to the level of detail required to be recorded during home loan customer interviews.

Collecting living expense information

2.13 In October 2017, ANZ introduced a more detailed breakdown of living expenses as part of its inquiries into a customer's financial situation for home loan applications, with the aim of assisting customers to better assess their monthly living expenditure. The same enhancements are planned to be implemented from 2018 in the personal loan, credit card and car lending areas of ANZ.

Verification

2.14 ANZ is currently utilising transaction history information on ANZ accounts to enhance automated verification practices across credit card and personal loan applications, with a progressive rollout to home loan applications. Specifically, ANZ has introduced an automated process for identifying salary credit payments into an ANZ account, which assists in the verification of customer-stated income for existing ANZ customers.

2.15 ANZ is also currently piloting, among other things, a policy and process change to use bank statements as the primary means to verify income in addition to review of proof of income collected from customers.

Fraud detection

2.16 In May 2017, ANZ enhanced its review process for home loan applications to better detect signs of possible fraud. [redacted]

[redacted]

Responsible lending training

2.17 In December 2017, ANZ introduced a mandatory responsible lending online training course for all its bankers in proprietary channels who assist consumers with lending applications (for example, home lending and credit cards), including mandatory modules addressing collection and verification of customer information. The training focuses specifically on the responsible lending obligations that frontline staff are required to understand, and complements existing training on the NCC.

2.18 Similar mandatory responsible lending training is also required for all new third party brokers before they can be accredited to introduce home loans to ANZ.

File review of Proprietary Lenders and Third Party Brokers

2.19 From 2016, ANZ introduced a more detailed file review process for its home lending and car lending businesses that has a stronger focus on responsible lending compliance requirements. Files are selected for review through a combination of random sampling and selection based on high risk indicators. Files are reviewed for adequacy of inquiries into customer requirements and objectives. File reviews can lead to coaching, training or further consequence management as referred to in [6.72] of the January Submission.

D. **Question 4: What is the work being done by ANZ to enhance industry responsible lending practices, referred to in [6.62]?**

2.20 At [6.62] of the January Submission, ANZ referred to work being done by a group of banks including ANZ to enhance responsible lending practices. There are two principal areas of work being done by ANZ in this regard:

(a) participation in an Industry Working Group (**IWG**); and

(b) participation in the Combined Industry Forum (**CIF**).

IWG

2.21 ANZ has, since February 2017, been involved in the IWG with representatives from each of the three other major trading banks with the objective of developing proposals to enhance the industry's approach to responsible lending. The retail banking heads and the General Counsel from each bank formed a Steering Committee and appointed a group of representatives from each bank to act as the IWG. In the early stages of the IWG process, meetings were arranged between the IWG membership and each of ASIC, APRA and the secretariat of the Australian Bankers' Association.

2.22 To date, the IWG has progressed two initiatives:

(a) Interview Guide.

A template industry home loan interview guide (**Guide**) has been developed by the IWG for use by third party intermediaries. The Guide sets out the minimum inquiries required by all participating banks into the requirements and objectives of customers in seeking a home loan. The objective of this initiative is to help drive consistency in the way in which inquiries are made across all participating banks in third party intermediary channels, and to improve the quality of such inquiries.

ASIC was engaged on the development of the Guide and has provided comments on a draft. The Guide is close to being finalised by the IWG and implementation is currently planned for April 2018.

(b) Review of Industry Benchmark.

The IWG has worked in consultation with APRA to explore options to review and enhance industry practices in the verification of customer living expenses collected by credit providers as part of their inquiries into customers' financial situations.

Credit providers, including ANZ, typically utilise the higher of (i) an income-linked living expense benchmark (commonly Household Expenditure Measure or HEM); and (ii) the customer's stated living expenses.

The IWG was asked by APRA to: (i) estimate the likely impact of enhancements to HEM to ensure it reflects a reasonable level of living expenses for customers (in particular, APRA requested that ANZ provide data to demonstrate how the enhancements to HEM would impact customer lending); and (ii) consider potential improvements to achieve consistency and standardisation in the way HEM is applied.

ANZ expects enhancements to HEM levels, and any proposals to standardise the application of HEM across the industry, to be announced by APRA publicly through regulatory guidance.[1]

2.23 Consultation on the review of the industry benchmark with APRA is continuing, both through the IWG and bilateral discussions with each participating bank. The work of the IWG is being shared with other members of the ABA.

CIF

2.24 Representatives of Australia's mortgage broking industry,[2] including ANZ, formed the CIF in 2017 for the purposes of: (a) preparing an industry response to the proposals outlined in ASIC's Review of Mortgage Broker Remuneration; and (b) responding to recommendations in relation to third party remuneration contained in the ABA's Retail Banking Remuneration Review.

2.25 In December 2017, the CIF announced a reform package based on six principles that will be implemented to ensure better consumer outcomes and improved standards of conduct and culture.

2.26 Those principles are contained in a media release issued by the CIF on 11 December 2017. The principles are: (a) a standard commission model which will avoid financial incentives that encourage consumers to borrow more than they need or will use; (b) moving away from volume-based and campaign-based commissions paid by lenders and aggregators; (c) limiting non-monetary benefits to situations where the recipient demonstrates success on a range of factors, including those leading to good customer outcomes; (d) ensuring greater transparency in relation to ownership of intermediaries and commercial relationships between intermediaries and credit providers on all marketing materials, including websites, so consumers have accurate information to make informed choices (due December 2018); (e) the provision of clearer information to ASIC and consumers on where loans are written, commissions paid and interest rates, to increase transparency and accountability in the industry (due December 2018); and (f)

---

1 As at the date of this document, no specific timeframe for APRA's announcement has been set.

2 Consisting of lenders (including ANZ), industry bodies, mortgage brokers and their representatives, aggregators, introducers and consumer groups.

the industry-wide introduction of an improved Governance Framework that monitors for and identifies risks, and requires the industry to take action and continuously improve where issues are identified (due December 2020).

3. **WEALTH MANAGEMENT: QUESTIONS 1 TO 4**

A. **Question 1: What is the remediation methodology referred to in [5.10]? Include details of the external party that developed the methodology and the instructions provided to that party.**

3.1 The remediation methodology referred to in [5.10] of the January Submission was that used to: (a) identify "Prime Access" customers who did not receive documented annual reviews in the period 2006 to 28 February 2013; and (b) compensate them. The methodology that applied to each of those two steps is discussed below.

Methodology for identifying relevant Prime Access customers

3.2 The methodology for identifying Prime Access customers who did not receive documented annual reviews varied over three different "sub-periods", according to the different systems which ANZFP used to track Prime Access customers over the period.

3.3 In each case, the first step was identifying the population of Prime Access customers. This was done by a combination of:

(a) obtaining information concerning their entitlement to Prime Access services from ANZFP's centralised financial planning client system, known as "COIN" (other than for the customers in the 2006 period, during which COIN was not in use); and

(b) in order to ensure customers who were not identified through COIN were also identified, aggregating various other information sources including Prime Access Service customer lists, data about customers who were charged Prime Access fees, and information from ANZ's registry systems.

<u>Sub-period 1: 1 August 2011 to 28 February 2013</u>

3.4 Once the population of Prime Access customers was identified for this period, the methodology for identifying those who did not receive documented annual reviews involved two steps:

(a) Step 1 – Completing planner file reviews and attestations / service delivery assessments.

(b) Step 2 – Validating the attestations / service delivery assessments.

3.5 In respect of step 1 (planner file reviews and attestations / service delivery assessments):

(a) For customers during this period whose planners were still current ANZ employees at the time of the remediation, the ANZFP planner responsible for the customer was required to review the customer's paper and/or electronic file to ascertain whether or not they received the annual reviews to which they were entitled in the period 2011 to 2013.

(b) Once ANZFP planners had reviewed a customer's file, they were required to attest to whether, for each service period in which the customer was entitled to an annual review:

(i) a review meeting was held;

(ii) a review document had been delivered to the customer; and

(iii) there was evidence on the paper and/or electronic file available to support the attestation.

(c) For the balance of customers (ie those whose planners were no longer current employees of ANZFP), service delivery was assessed by the project team reviewing the customer's paper and/or electronic file to ascertain whether or not they received the annual reviews to which they were entitled.

(d) The attestations provided by planners, and assessments by the project team, were validated by PwC, as referred to below.

3.6 In respect of step 2 (validation of the attestations / service delivery assessments):

(a) ANZ engaged PwC to design and implement a file validation review process to determine whether the planner attestations could be relied upon for the purposes of determining which customers required reimbursement and for which periods. PwC's work was essentially a 3-stage process:

(i) an initial validation of a 30% sample of each planner's client files;

(ii) further validations as a result of any planner attestation failures identified by the initial validation; and

(iii) further checking for evidence of delivery of the annual review, by reviewing ANZ's product systems for evidence that advice had been implemented by the customer.

(b) PwC developed a methodology which required that they review a sample of 30% (which PwC considered to be a statistically valid sample size) of each planner's files to form a view on whether the attestations provided by individual planners were reliable in relation to the rest of their customer books.

(c) Where a planner was identified as having made one or more errors in their sampled attestations (an error being defined as one that would impact a customer's reimbursement position), PwC then reviewed 100% of the planner's Prime Access customers where they attested to having delivered the annual review. This was to ensure that any similar errors made in respect of the planner's initially non-sampled customers were identified for reimbursement.

<u>Sub-period 2: 2007 to 31 July 2011</u>

3.7 For the period 2008 to 2011 (inclusive), during which planners were required to keep electronic records of service delivery in COIN, PwC reviewed data within COIN that indicated whether or not a service had been provided for a given year during this period. Where COIN included a record of a review document, PwC reviewed the adviser's hard copy file and/or ANZ's product systems for further evidence that the annual review had in fact been provided to the customer. Where COIN did not include evidence of a review document, PwC concluded that no annual review had been provided.

3.8 In respect of 2007, during which period electronic record keeping in COIN was available but not compulsory, PwC used available records in COIN (as above) and also reviewed the advisers' hard copy files and/or ANZ's product systems to determine whether or not a service had been provided. This related to approximately 1,600 Prime Access customers.

<u>Sub-period 3: 2006</u>

3.9 To identify customers who did not receive documented annual reviews during 2006, similarly to the approach taken in respect of 2007, PwC used available records in COIN and reviewed the advisers' hard copy files and/or ANZ's product systems to determine whether or not a service had been provided.

The methodology for compensating customers

3.10 Where the steps outlined above indicated that a planner had not provided a service for a given year in the period, the relevant customer was identified as being entitled to compensation.

3.11 The methodology for compensating those customers is outlined in the annexed document, "ANZ Financial Planning Project Gold – Prime Access Client Fee Reimbursement Calculation Methodology (CFRCM)" (**Annexure 1**). While that document is marked as privileged, ANZ does not consider the document to be privileged and therefore does not consider its provision to be a waiver.

The external consultant referred to in [5.10] of the January Submission and the instructions provided to it

3.12 As stated in [5.10] of the January Submission, the remediation methodology was developed by ANZ with the assistance of an external consultant, namely PwC.

3.13 The instructions provided to PwC for the purpose of PwC assisting in the development of the remediation methodology, and implementation of aspects of that methodology, are recorded in a number of "Statement of Work" and "Change Request" documents, the relevant parts of which have been extracted in **Annexure 2** titled "Extracts from Statements of Work".

3.14 Clayton Utz also supported the remediation program, including by providing legal advice relating to the development of the remediation methodology.

B. **Question 2: What is the "possible culture amongst financial advisers…of inadequate attention to service delivery" referred to in [5.13]?**

3.15 In [5.13], ANZ referred to a possible culture amongst financial advisers of inadequate attention to service delivery.

3.16 Before Prime Access was introduced in 2003, planners typically interacted with clients on an occasional basis, and provided transactional advice about financial products. For example, a client may have met with a planner in 2000 for advice about life insurance, and then have met with a different planner in 2002 for advice about superannuation. Prime Access was intended to transform the client-planner relationship from being transactional to being an ongoing relationship, whereby one planner would regularly meet with the client with the aim of seeing that their financial strategy was appropriate for their personal circumstances.

3.17 However, it is now apparent that, as ANZFP transitioned to an ongoing service model, it failed to develop the processes and culture necessary to consistently deliver such services to its customers to the requisite level.

3.18 ANZ considers that, as an AFS Licensee, it did not provide adequate systems, direction and support to create a culture that was focused on delivering services to clients. ANZ refers, in particular, to the conduct identified in rows 1–5 of Part I to this response. ANZ does not, however, suggest that there was a deliberate practice or culture among planners of signing up customers to the Prime Access service without intending to provide them with documented annual reviews.

3.19 After the introduction of Prime Access, many of ANZFP's policies and processes remained focused on the old model of transactional advice. Some key examples of this are provided below:

(a) Under ANZFP's then remuneration model, planners could receive incentive payments even if they had not delivered all services that were due to their Prime Access customers. That incentivised procuring new business and providing quality advice to customers, but it did not incentivise the consistent delivery of ongoing services to clients. However, since 2014, the remuneration model has considered service delivery, and since 2016 planners have not been eligible for an incentive payment if they do not meet service delivery criteria.[3]

(b) Each year, ANZ audits each of its advisers to assess whether their advice is compliant with the law and ANZ's business rules. However, ANZ's adviser audits did not formerly adequately test whether all services were delivered as they should have been.

(c) ANZ did not initially build adequate systems to track the delivery of Prime Access services. Until 2011, ANZFP management did not have a way of reliably tracking whether Prime Access documented annual reviews had been delivered to customers.

(d) ANZFP management did not place enough emphasis on the importance of ensuring that all promised Prime Access services were delivered each year.

3.20 ANZ has now implemented a range of new business processes and controls (see [5.14] of the January Submission and the answer to question 3 below).

C. **Question 3: What are the measures implemented to reduce the risk of recurrence referred to in [5.14]?**

3.21 The January Submission at [5.14] summarised the measures implemented by ANZFP to reduce the risk of recurrence of the failure by ANZFP financial advisers to provide documented annual reviews to Prime Access customers that occurred from 2008 to 2013. In particular, those measures include: monitoring and reporting, such as daily reports identifying customers with upcoming or overdue annual reviews; financial planner support officers to support advisers in delivering Prime Access Services; statements to clients identifying whether they have received promised services; increased focus on service delivery in annual file reviews; escalation procedures; training; and changes to remuneration structures. Those measures are detailed further below.[4]

Meeting Due Reports and alerts by FPSOs

3.22 Since July 2014, it has been mandatory for advisers to enter into the COIN system diary notes recording key interactions with clients. Among other things, a diary note fulfilling certain template requirements must be entered upon completion of an annual review. When the statement of advice flowing from an annual review is subsequently completed by the central para-planning team following the instructions of, and under the supervision of, the financial adviser and sent to the client, a copy is automatically retained in COIN.

3.23 A business control team was established in 2014 as part of ANZFP head office and now consists of 17 people, nine of whom are aligned to Prime Access. That team runs a daily "Meeting Due Report" which identifies upcoming and overdue annual reviews, together with other data concerning Prime Access services. The report, which takes the form of a spreadsheet, automatically collects from COIN the data relevant to when an annual review is due and whether a diary note shows that it has taken place in respect of each Prime

---

[3] See [3.36]-[3.39] below.

[4] This response does not detail the somewhat different measures referred to in [5.15] of the January Submission, being those taken by dealer groups to reduce the risk of recurrence of the failure by representatives of FSP, RI and M3 to provide documented annual reviews to customers between May 2013 to April 2016.

Access client. The report is then made available to, among others, financial advisers, their practice managers and Financial Planner Support Officers (**FPSOs**) on a share-drive.

3.24 When originally instituted in 2011, the Meeting Due Report — then called the "Overdue Report" — listed only overdue annual meetings and was emailed directly to all financial advisers. In April 2015, the report was renamed the "Meeting Due Report" and began reporting not only on overdue meetings but also upcoming ones. The increased size of the report made it prohibitive to email and, from soon afterwards, access to it has been via a share-drive. Financial advisers are encouraged to check the share-drive regularly, including in the Prime Access Process Guide (mentioned below), conversations with direct supervisors, and from time to time in weekly email circulars. Further, when new financial advisers are accredited to provide Prime Access services, they are given instruction concerning the Meeting Due Report.

3.25 FPSOs provide administrative support to financial advisers. A substantial part of their role is the provision of support to financial advisers providing the Prime Access service. There are currently 76 FPSOs across the country responsible for approximately 250 financial advisers employed by ANZFP. One of the roles of FPSOs is to review the Meeting Due Report daily and alert the advisers for whom they are responsible, by email or other means, of any overdue annual reviews.[5]

Monitoring and compliance

3.26 Whether financial advisers are complying with their obligations to deliver Prime Access ongoing services, and in particular documented annual reviews, is monitored in a number of ways.

3.27 First, annual fee disclosure statements which ANZFP is required to provide to clients to whom there are ongoing service obligations require disclosure of, among other things, whether promised services were delivered over the previous year. When the business control team referred to at [3.23] prepares fee disclosure statements, to determine whether or not annual reviews have been undertaken, they check for a COIN diary note recording the completion of a documented annual review.

3.28 Secondly, from December 2017, the central para-planning team has had available a "Diary Note QC Tool". This tool checks a sample (10%) of diary notes recording Prime Access annual reviews for a given financial adviser to determine whether there is a corresponding advice document appearing in COIN as having been dispatched within two months. The sample is, by default, selected by a random sample tool but the selection can instead be weighted if that is desired. The intention is for this tool to be run monthly. ANZ is, at present, reviewing the data produced by the initial run of the tool to determine that it is operating properly before it is implemented on an ongoing basis.

3.29 Thirdly, a monthly forum within ANZFP comprising practice managers, State managers and representatives from Head Office, receives reports prepared by the business control team (based on the Meeting Due Report) on how financial advisers are performing in various areas including ongoing service delivery rates. The report provides information aggregated across financial advisers at a State level and identifies individual advisers for whom annual reviews are overdue.

3.30 Fourthly, both the process by which FPSOs are required to alert financial advisers of upcoming or overdue service obligations, and the process by which fee disclosure

---

5 ANZFP is part way through centralising FPSOs to form a "Support Hub" which reports directly to ANZFP head office, rather than having FPSOs reporting to different practices. That process has been implemented in New South Wales, South Australia and Western Australia to date. ANZFP is presently reviewing the process before implementing it in other States. Where it has been implemented, responsibility for particular financial advisers is shared among a number of FPSOs.

statements are completed, have been identified as "key and material" controls. Accordingly, they are the subject of annual control testing by the Advice Assurance Team, a dedicated team of 15 staff nationally.

3.31 Fifthly, five files for each ANZFP adviser are the subject of review each year. The files are selected so as to reflect the mix of the adviser's practice; so, for instance, if most of the adviser's files involve ongoing service obligations, most of the files reviewed will be ones involving ongoing service obligations. From July 2017, if an adviser has any files involving the provision of ongoing services, at least one file selected must involve ongoing services.

3.32 Sixthly, varying aspects of the process by which the business control team produces the Meeting Due Report are the subject of annual reviews by the Risk Team.

3.33 Seventhly, in more serious cases involving financial adviser non-compliance with service obligations (primarily, where there is repeat non-delivery, a failed Advice Assurance review or a customer complaint), the matter is escalated to the Consequence Management Committee. This Committee, which meets monthly, consists of various higher level staff including, for instance, the General Manager of ANZFP, the Head of Risk and the Complaints Manager. The Committee determines what, if any, action should be taken in respect of cases submitted to it. The actions able to be taken include things such as requiring more frequent auditing of a financial adviser, providing more training and coaching, additional monitoring and supervision and, in serious cases, loss of accreditation (both to provide Prime Access services and to act as a financial adviser) and termination.

3.34 Eighthly, in December 2017, ANZFP introduced the "Adviser Hub", referred to at [5.26(b)] of the January Submission. Information about advisers is fed into the Hub by various of the processes and teams referred to above, including information about non-compliance by a particular adviser with service obligations or compliance actions taken against that financial adviser. The information can then be accessed by the Advice Assurance team, Complaints, Incidents, Risk, Training and Accreditation, as well as certain authorised employees and supervisors.

3.35 In addition to these matters, which have already been implemented, work is being undertaken to consider how enhanced data analytics capabilities could most appropriately be used to monitor compliance with service obligations.

Performance and incentive links to compliance

3.36 The compliance of advisers with their ongoing service obligations is taken into account in the assessment of their remuneration in a number of ways.

3.37 First, it is taken into account via the balanced scorecard referred to at [5.26(d)] of the January Submission. Previously, in the ranking of financial advisers against their peers, including for the purposes of remuneration, greater weight was given to financial matters such as procuring new business. Since 2014, the remuneration model has considered service delivery, and since 2016 there has been a balanced scorecard (as referred to in [5.26(d)] of the January Submission). The current weighting (which was updated in 2017) is as follows: customer, including service delivery (30%); people and reputation (20%); financial and discipline (30%); and risk and process (20%). The ranking of financial advisers against their peers is not, however, simply a mathematical exercise; it is also the product of discussion among supervisors.

3.38 Secondly, for financial advisers offering the Prime Access service to be eligible for incentives for a six-month period, a team at Head Office (the Business Unit Incentive Plan) consults with the Advice Assurance Team and the Central Controls Team to determine whether the reports which they have prepared for the relevant period indicate that the adviser has:

(a) any overdue annual review meetings for the period; or

(b) failed to meet at least 95% of the Prime Access service obligations applicable to the adviser's clients for the period.

If so, the financial adviser is ineligible for any bonus for the period.

3.39 Thirdly, misconduct, including a failure to comply with service obligations may result in a financial adviser not being rewarded in the form of bonuses. This has occurred in respect of a number of advisers who have not delivered Prime Access services.

Improved training

3.40 ANZFP has taken various steps to improve the training of ANZFP financial advisers offering the Prime Access service, relevantly in relation to meeting service obligations including the provision of documented annual services reviews.

3.41 First, ANZFP has created the "toolkit" (referred to at [5.26(a)] of the January Submission). This is a series of "process maps" that follows the advice process from the initial referral through to implementation and ongoing service delivery. It refers to the need to have annual service reviews and the required timeframes. There is a larger Prime Access Process Guide available to financial planners which sets out these procedures in more detail.

3.42 Secondly, ANZ introduced Advice Quality Coaches (referred to at [5.26(a)] of the January Submission). They are an internal group of trainers or coaches who provide training in a group setting. The training they provide is directed to issues the subject of recent regulatory change or focus for ANZ.

3.43 Thirdly, before a financial adviser can offer Prime Access services, they must undertake a specific workshop and accreditation process. That workshop includes material concerning the provision of ongoing services, including documented annual reviews.

3.44 Fourthly, in December 2016, all financial advisers providing Prime Access had to undertake a reaccreditation process. This required advisers to undertake a program concerning, among other things, the service obligations associated with Prime Access. That was required even if advisers had previously undertaken such a program when first accredited to offer the Prime Access service. Knowledge was assessed across three core modules: proposition; business rules and processes; and ongoing advice obligations. A score of 90% was required in each module. A maximum of two attempts to achieve a pass mark per module was allowed. If both attempts failed, the planner was required to attend a webinar to fill in any knowledge gaps before repeating the module.

Reimbursement

3.45 Finally, though not directly a measure of the kind referred to in [5.14] of the January Submission, in November 2017, ANZFP introduced a process whereby fees are reimbursed to clients where an annual review is not delivered within a 15-month period. That is a manual process undertaken by the business control team based on the Meeting Due Report.

D. **Question 4: What are the internal policies and procedures ANZ now has 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.**

3.46 Section 8, Part A of the January Submission addresses, at a high level, breach reporting processes and issues across ANZ as a whole.

3.47 Policies and procedures that are relevant to breach reporting exist within ANZ at a general, "whole of bank" level (that is, they apply to all divisions and business units).[6] These policies and procedures deal with operational risk and compliance management, and establish the framework under which compliance incidents are identified, assessed and escalated (including in compliance with breach reporting obligations). Specific procedures apply at the division and business unit levels, reflecting their particular circumstances. The following information describes the procedures applicable in Wealth (as this question was asked in the section of the annexure dealing with Wealth management).

3.48 All of the bank's relevant policies and procedures are designed to facilitate and support its breach reporting systems and procedures, which in turn form part of ANZ's broader processes and procedures relating to the identification, assessment and escalation of events more generally (not just significant breaches reportable under s 912D of the Act).

3.49 Below is an indicative flowchart that sets out the breach reporting procedures as they apply to Wealth (with the exception of the small business unit known as "Wealth Direct").[7] The policies that directly relate to breach reporting by Wealth are set out in the table following the flow chart.[8]

3.50 In preparing this response:

(a) ANZ has included only those procedures applicable to Wealth that it considers directly relate to s 912D breach reporting. It has not included policies or documents of more general application (such as the policies and procedures that apply at a "whole of bank" level, as referred to in [3.48] above), or which are only indirectly related to s 912D breach reporting (for example, policies governing remediation of customer loss from matters including significant breaches under s 912D, or whistleblower policies and procedures, or the ANZ Code of Conduct).

(b) ANZ has focused on those procedures that currently apply to Wealth in relation to s 912D reporting, and the changes made to those policies since they were first introduced. It has not sought to address historical policies and procedures that are no longer in force.

3.51 ANZ has also not included the systems and processes that support staff in identifying, recording and reporting issues (such as online forms and reporting templates, and staff training).

---

6 Operational Risk Measurement & Management Policy; Operational Risk – Risk Events and Losses Procedure (November 2015); Operational Risk – Risk and Control Assessment Procedure (June 2016); ANZBGL Australian Licencing Procedure (January 2016); Australian Licencing Requirements (February 2016).

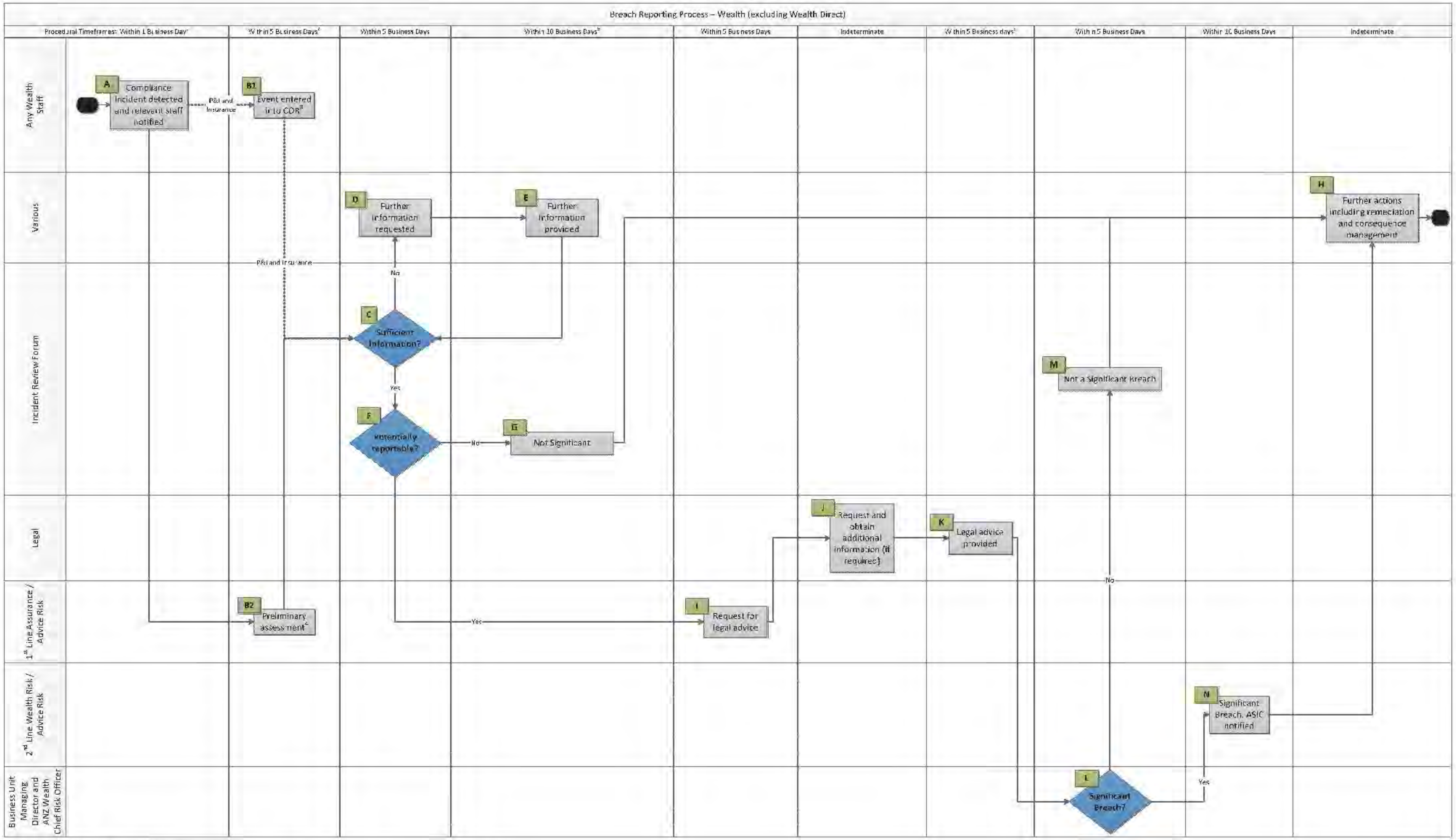
7 The timeframes included at the top of the flowchart refers to the time periods for particular stages stated in policies. They are not intended as a "timeline" of the overall breach assessment process (as multiple phases may, in practice, be undertaken simultaneously) and are not intended to reflect the amount of time taken in practice.

8 As referred to in [5.1] of the January Submission, Wealth is principally comprised of Wealth Advice, Wealth P&I and Insurance. Wealth Direct comprises five advisers who provide general advice over the phone, under ANZBGL's AFSL. The breach reporting processes for Wealth Direct are not governed by the same policies and procedures that apply to Wealth. Given the limited time in which ANZ has had to prepare this response, Wealth Direct was omitted from the scope of this response, but the ANZ would be pleased to provide further information if that would assist the Commission.

PART II OF ANZ'S RESPONSE TO THE COMMISSION'S FURTHER LETTER DATED 2 FEBRUARY 2018

ANZ refers to paragraph [3.49] of its response to the Commission's letter of 2 February 2018 and to paragraphs [8.1] and [8.12] of the January Submission.

INDICATIVE FLOWCHART



[1] This timeframe applies to Wealth Advice.
[2] Within Wealth Advice, the timeframe is one business day for fraud events. Within Wealth P&I and Insurance, this timeframe runs from the detection of the Compliance Incident.
[3] Within Wealth P&I and Insurance, upon detection, events are entered into COR by the relevant staff member.
[4] Within Wealth Advice, only events appearing to be genuine Compliance Incidents are recorded in COR and progressed for formal review.
[5] Within Wealth Advice, the timeframe is determined by the Incident Review Forum at the time of the decision that further information should be requested.
[6] This timeframe runs from the receipt, by Legal, of the request or of additional information requested by Legal as being reasonably necessary for legal advice. Legal may also request additional time in complex matters.

PART II OF ANZ'S RESPONSE TO THE COMMISSION'S FURTHER LETTER DATED 2 FEBRUARY 2018

FLOW CHART EXPLANATION

Point A: Staff member detects a potential compliance incident[9] and, within Wealth Advice, has one business day to notify 1st-line Assurance or the risk team for Wealth Advice (**Advice Risk**).

Point B1: Within Wealth P&I and Insurance, the potential compliance incident is entered into COR either by a Team Manager or 1st line Assurance within 5 business days of detection.

Point B2: Within Wealth Advice, Advice Risk assesses the incident within 5 business days (or one business day for fraud events) to determine whether it is a Compliance Incident. If so, an entry in COR is created. If not, the incident is not assessed further.

Point C: Compliance Incidents (and, in Wealth P&I and Insurance, potential compliance incidents) are considered by the relevant Incident Review Forum (**IRF**). Within Wealth Advice, the relevant forums are the Risk and Event Forum and the Event Working Group. Within Wealth P&I and Insurance, the relevant forums are the P&I IRF and the Insurance IRF. The relevant IRF determines whether it possesses sufficient information within 5 business days.

Point D: If the IRF does not have sufficient information to determine whether the compliance incident is potentially reportable, it must submit a request for further information.

Point E: Further information must be supplied within 10 business days of receipt of the request (Wealth P&I and Insurance) or within such timeframe as determined by the IRF (Wealth Advice).

Points C–D–E can be repeated as appropriate until the IRF possesses sufficient information.

Point F: Once the IRF has sufficient information, it must determine whether the Compliance Incident is potentially reportable within 5 business days. If not, subject to breach reporting (**Point G**), but may be subject to further internal processes (**Point H**).

Point I: If the IRF determines that the Compliance Incident is potentially reportable, a request for legal advice must be submitted within 5 business days.

Point J: Legal will request and obtain any additional information it considers to be necessary for the provision of legal advice. This process can be repeated as appropriate until Legal possess sufficient information.

Point K: Legal must provide advice within 5 business days of the request for advice, or (if applicable) the receipt of sufficient additional information. Legal may also request additional time in complex matters.

Point L: The Business Unit Managing Director and Chief Risk Officer (Wealth) are jointly responsible for determining whether the Incident should be reported.

Point M: An incident that is not a significant breach is either a Non-Significant Breach or not a Breach, but may be subject to further internal processes (**Point H**).

Point N: Wealth Risk (2nd line) Assurance or Advice Risk must notify ASIC of a Significant Breach within 10 business days. The Significant Breach may also be subject to further internal processes (**Point H**).

---

9 **Compliance Incident** means a failure of internal process, people and/or systems, or a consequence of external events, which negatively impact ANZ, with legal or regulatory compliance related consequences.

PART II OF ANZ'S RESPONSE TO THE COMMISSION'S FURTHER LETTER DATED FEBRUARY 2018

TABLE OF PROCEDURES

Procedure name	Date of introduction	Date of any material amendment	Summary of content of amendment
Wealth Advice			
ANZ Financial Planning & Aligned Dealer Groups Governance Framework	February 2017	N/A	N/A
ANZ Financial Planning and Aligned Dealer Groups Event Management Procedure Guide	30 June 2015	31 May 2016 17 February 2017	Changes from 2015 to 2016: • Consolidated ANZ Financial Planning guide, and Aligned Dealer Groups procedure guide for event management. Changes from 2016 to 2017: • General review, improved clarity of breach assessment process and suspicious matter reporting. • Introduction of Breach Consideration Status descriptions applicable where an incident being assessed for reportability and where Legal had identified a matter as reportable. • Description of factors to be considered in determining whether breach or likely breach was "significant". • Addition of breach reportability assessment flowchart outlining process to be followed from initial assessment to lodgement of breach letter.
ANZFP Incident Notification Standard and Self-Raised	July 2015	No material amendments relevant	N/A

Incident Guide		to incidents or breaches	
Wealth Advice, Aligned Dealer Groups Incident Notification Standard	July 2011	No material amendments relevant to incidents or breaches	N/A
Wealth Advice, Breach Reportability Assessment Process	February 2017	None	N/A
ANZ Financial Planning Risk & Event Forum and Event Working Group Charter	January 2016	No material amendments relevant to incidents or breaches	N/A
Financial Services Partners Risk & Event Forum and Event Working Group Charter	January 2016	No material amendments relevant to incidents or breaches	N/A
Millenium3 Risk & Event Forum and Event Working Group Charter	January 2016	No material amendments relevant to incidents or breaches	N/A
RI Advice Risk & Event Forum and Event Working Group Charter	January 2016	No material amendments relevant to incidents or breaches	N/A

Wealth P&I and Insurance			
Charter – Pensions & Investments Incident Review Forum	January 2010[10]	January 2014 February 2016 June 2017	Changes in 2014: • Changes to escalation requirements. • Removal of requirements to commence drafting of breach notice for review and approval by General Manager and to oversee review of draft breach notices by relevant business contacts. • Introduced requirement to assess whether incident represents a breach or potential breach of applicable laws that requires escalation for formal assessment of reportability. Changes in 2016: • Addition of Breach Assessment and Reporting process with timeframes. • Addition of business entity queues for purposes of generating weekly report of reportable events on COR platform. • Addition of requirement to table reportable events report in COR. • Introduced requirement to conduct a preliminary assessment of whether the event would need to be referred to Legal for a formal assessment of reportability. • Forum meetings could proceed without a representative from Legal (though verification of reportability assessments required outside meeting). • Identified personnel in P&I Operations required to achieve a quorum. Changes between 2016 and June 2017: • Introduced requirement to conduct preliminary assessment

10 Then named "Charter – Incident Review Forum"

			against significance "factors" (with references to legislative sources). • Addition of escalation requirements to Wealth Australia Leadership Team (**WALT**). • Forum given discretion to monitor incidents it believes warrant further oversight. • Revised Beach Reporting Process and timeframes. • Revised list of business entity queues included in weekly report generated in COR (Corporate Finance Operations no longer included). • Removed requirements re personnel in P&I Operations to achieve quorum. • Revised requirements for presence of legal representative. • Identified reporting period for COR reports.
OnePath, Breach Assessment Timeline – Determining Reportability to ASIC and APRA	October 2017[11]	None	N/A
Global Insurance Products (Australia) – Incident Management Standard	July 2015	September 2015 September 2017	Changes from July to September 2015: • Defined objective and scope of the standard in line with first line responsibilities of Insurance Products business function. • Removed references to legal entity structure to align to first line roles and responsibilities of Insurance products business function. Changes from September 2015 to September 2017:

[11] The timelines set out in this document were previously referred to in Step 4 (page 7) of the Global Insurance Products (Australia) Incident Management Standard (Sept 2015) and Appendix 3 of the Wealth - Incident Management Quick Reference Guide (October 2016). It was introduced as a stand-alone document in October 2017.

			• Updated definitions. • Updated "Roles and Responsibilities" and included escalation requirements to Line 2 Wealth Operational Risk and Compliance. • Included list of Insurance Incident Review Forum attendees as part of "Internal Reporting and Escalation" requirements. • Removed references to Lawlex and substituted references to COR Platform. • Further detail included on COR data record requirements for "Procedure Steps". • Updated to include reference to managing incidents for Adviser Sales. • Removed Extension Request Template and WALT reporting template in line with updated escalation requirements. • Updated to include handling guidelines for breaches of various codes (being the Life Insurance Code of Practice, the General Insurance Code of Practice, the Australian Bankers' Association Code of Practice and the FSC Standards). • Included updated Request for Legal Advice template.