ROYAL COMMISSION INTO MISCONDUCT IN THE BANKING, SUPERANNUATION AND FINANCIAL SERVICES INDUSTRY

INTERIM REPORT

SUBMISSIONS OF BANK OF QUEENSLAND LIMITED

26 OCTOBER 2018

A. INTRODUCTION

1. Bank of Queensland Limited (**BOQ**) has carefully read the Commission's Interim Report. BOQ is disappointed by the industry shortcomings and misconduct identified. The BOQ case study investigated by the Commission was confronting for BOQ. BOQ accepts that it must continue to improve its processes and do better in supporting its customers. The historic management of its Financial Ombudsmen Service (**FOS**) complaints was also disappointing for BOQ and is an area where improvements will continue to be made. BOQ continues to empower its team at every level to embrace the findings in the Commissioner's Interim Report as the platform for improvement in all areas of BOQ's operations.

2. This submission addresses issues raised in the Commission's Interim Report that relate specifically to BOQ.

3. The Commission's Interim Report states that the recommendations made by Mr Stephen Sedgwick AO in the Retail Banking Remuneration Review Report (**Sedgwick Recommendations**) do not "fit easily" with BOQ's owner-manager (**OM**) branch model.[1] The Interim Report also suggests that further examination of this model and BOQ's remuneration structures is required.[2]

4. For the reasons outlined below, BOQ submits that the OM branch model is not incompatible with the Sedgwick Recommendations. BOQ is fully cognisant of the principles outlined in the Sedgwick Recommendations and supports those principles. The "Balanced Scorecard", revised for 2019 financial year, which is currently adopted by BOQ, including in the OM network, imposes significant financial penalties for unsatisfactory customer outcomes. BOQ is continuing to refine its remuneration model consistent with the Sedgwick Recommendations.

B. CONTROLS TO MITIGATE RISK IN THE OM BRANCH NETWORK

5. BOQ has previously provided a submission to the Commission addressing a question raised by Senior Counsel Assisting during the round 3 hearings regarding the remuneration of OMs (**12 June Submissions**).[3]

6. In the 12 June Submissions, BOQ recognised that the payment of trailing commissions and other incentives in connection with the sale of financial products can, in some circumstances, carry a risk of promoting behaviour that is inconsistent with the interests of customers. BOQ also described the controls it has put in place for the OM network that are designed to mitigate those risks, including:

---

[1] Interim Report, Volume 1, p 315.

[2] Interim Report, Volume 2, p 293.

[3] BOQ Submissions, 12 June 2018.

(a) OM accreditation and training requirements;[4]

(b) OM authority levels in respect of activities such as loan origination;[5]

(c) remuneration under the OM agency agreements, particularly the Balanced Scorecard approach to calculating remuneration;[6]

(d) OM monitoring and management;[7] and

(e) a formalised and structured consequence management system.[8]

C. IMPLEMENTATION OF SEDGWICK RECOMMENDATIONS

7. As noted in the 12 June Submissions, in 2017 BOQ established the Retail Branch Network Working Group (**Working Group**) to review and assess remuneration and incentive schemes applicable to retail bankers across the BOQ Retail network (which is comprised of both corporate owned and OM branches).[9]

8. The Working Group has identified changes necessary to align BOQ's remuneration structures with the Sedgwick Recommendations, and steps have been taken to implement a number of those changes. These changes, as they relate to OMs, are summarised in the following paragraphs.

9. BOQ has implemented changes to the "Balanced Scorecard" underlying the Fit4Biz Reward and Recognition Scheme (**Fit4Biz Scheme**), which measures individual branch performance across various key performance measures.[10] By meeting or exceeding these performance measures, OMs earn points which are used to calculate, amongst other things, commissions.

10. Initial changes to the Balanced Scorecard took effect on 1 September 2018 and were designed to adjust the weighting of performance measures to 60% for non-financial measures and 40% for financial measures.

11. The Balanced Scorecard now prescribes the following non-financial measures:

(a) quality measures, namely:

(i) monitoring and supervision, including completion of certain branch activities, coaching sessions and branch quarterly cash counts as required under the BOQ Monitoring and Supervision Framework;

(ii) completion of all mandatory training by all branch staff by the due date; and

---

[4] Statement of Douglas Robert Snell dated 15 May 2018 with Exhibit DRS-2 in response to Rubric 3-8 tendered as exhibit 3.34 (BOQ.0001.0087.0001) (**Snell Statement**), [257]-[258].

[5] Snell Statement, [66].

[6] Snell Statement, [261]-[272].

[7] Snell Statement, [273]-[284].

[8] Snell Statement, [288]-[292].

[9] Snell Statement, [301].

[10] Snell Statement, [123].

(iii) completion of loan reviews in line with the Commercial Lending Credit Policy;

(b) digital activation measures, which set targets for engaging customers with internet banking; and

(c) BOQ Customer Heartbeat Discipline Score, which measures the number of staff within a branch completing modules relating to customer service.

12. Other changes to the Fit4Biz Scheme are currently being reviewed and are expected to include:

(a) shifting the focus of the financial measures in the Balanced Scorecard to a holistic view of the portfolio, rather than setting targets at an individual product level; and

(b) removing product specific wildcards from the Balanced Scorecard.

13. BOQ intends to further amend the Balanced Scorecard in the 2020 financial year to utilise 70% non-financial measures and 30% financial measures, in compliance with the Sedgwick Recommendations.