COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Review of Australia's four major banks

WEDNESDAY, 11 OCTOBER 2017

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Wednesday, 11 October 2017

Members in attendance: Mr Bandt, Ms Banks, Mr Buchholz, Mr Coleman, Mr Evans, Mr Hogan, Mr Craig Kelly, Mr Keogh, Ms Madeleine King, Mr Thistlethwaite.

Terms of Reference for the Inquiry:

To inquire into and report on:

The four major banks, focusing on:

- domestic and international financial market developments as they relate to the Australian banking sector and how these are affecting Australia
- developments in prudential regulation, including capital requirements, and how these are affecting the policies of Australian banks
- the costs of funds, impacts on margins and the basis for bank pricing decisions, and
- how individual banks and the banking industry as a whole are responding to issues previously raised in Parliamentary and other inquiries, including through the Australian Bankers' Association's April 2016 six point plan to enhance consumer protections and in response to Government reforms and actions by regulators.

WITNESSES

HARTZER, Mr Brian, Chief Executive Officer and Managing Director, Westpac Group

KING, Mr Peter, Chief Financial Officer, Westpac Group

Committee met at 09:15

CHAIR (Mr Coleman): I convene this hearing of the committee's review of Australia's four major banks. This is the third round of hearings that the committee is undertaking as part of its review. In November 2016 the committee published its first report, which followed the first round of hearings in October 2016. The report contained 10 recommendations for reform of the banking sector, including calling for new legislation and regulatory changes to improve the operation of the banking sector for Australian consumers.

In its second report, in April 2017, following its March round of hearings, the committee reaffirmed the 10 recommendations in its first report and made an additional recommendation that non-monetary default clauses be abolished for loans to small businesses. In the May budget, the government broadly adopted nine of the committee's 10 recommendations for banking sector reform, including a one-stop shop for consumer complaints, a regulated executive accountability regime and new powers and resources for the ACCC in investigating competition issues in the setting of interest rates. The government also adopted the committee's recommendations in relation to establishing an open data regime in banking and changing the regulatory requirements for bank start-ups in order to encourage more competition in the sector. The committee's mandate from the government to review the banking sector is ongoing, and these hearings provide an important mechanism to hold the four major banks to account before the parliament. The hearing today will focus on progress on implementing the recommendations and other matters, including issues in the banking sector that have emerged since the last hearings.

I remind witnesses that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. I would also like to outline a number of matters related to the conduct of today's hearing. I refer members and witnesses to the House resolution related to procedures for dealing with witnesses, at page 126, paragraph (9), of the House of Representatives standing orders. The resolution provides that should a witness refuse to answer a question they should be asked to state the grounds on which they object. The committee may either accept that objection or, alternatively, deliberate at a future private meeting on whether or not to insist upon an answer. During the course of the hearing, witnesses may be asked to provide documents at a later stage. If a witness subsequently refuses to provide documents, the committee may meet in private to consider the matter. Under standing order 236 of the House of Representatives, the committee has the power to compel witnesses to produce documents where the committee has made a decision that the circumstances warrant such an order.

I would also like to disclose that prior to being elected to parliament in 2013 I was a member of the board of directors of Yellow Brick Road Ltd. Yellow Brick Road is a financial services company that competes with the banks, particularly in the areas of mortgages and financial services. I resigned from the board on being elected to parliament.

We have representatives from Westpac Bank present for today's hearing. Mr Hartzer, I invite you to make an opening statement.

Mr Hartzer: Thank you, Mr Chairman. Peter King, our Chief Financial Officer, is here to help with questions today as well. Since we last met, Westpac celebrated its 200th anniversary as Australia's first bank and oldest company. This milestone has led us to reflect on what it takes for companies to survive for so long. In my view, there are four factors: a dedication to building long-term relationships, a willingness to adapt to changes in the economy and in society, a commitment to strong risk management, and a positive, service oriented culture where the best bankers can thrive.

The key to long term relationships is put our customers' interests first as we design our products and services and make decisions about pricing and other policies. That's why we are actively reviewing all our products, processes and policies to make sure they meet today's standards. Internally, we call this 'get it right, put it right'. If we find products and services that don't meet current expectations, we change them. If in these reviews we find there has been an unacceptable impact on customers, we put it right.

This work has led to a number of changes in recent months. We have launched our new basic credit card, Westpac Lite, with an interest rate of 9.9 per cent. We're simplifying fees on personal transaction accounts which will benefit over 1.3 million customers. We have improved disclosures for pre-existing conditions on life insurance. This willingness to adapt has been particularly important, given the impact of new technology and the large volume of new regulations. For example, later this year Westpac will launch our new small business finance agreement. This will be a shorter, plain English document which business customers can sign electronically, saving them time and getting them their funds faster.

We also acknowledge the issues raised by this committee around accountability. That's why we support the government's new banking executive accountability regime. Implemented well, it will clarify accountabilities in what are relatively complex and matrixed organisations. While the legislation has not yet passed, Westpac has begun implementing it now. We are reviewing our incentive systems to ensure they align with the BEAR rules. I should note, however, that we are conscious that BEAR imposes severe penalties where things go wrong and are keen to work with government and the regulators to avoid unintended consequences.

The principles driving the BEAR reinforce the third lesson of our history, around the commitment to strong risk management. Working with regulators, we have recently introduced a number of measures to better manage credit, funding and liquidity risks, and APRA has set higher capital requirements for banks to be seen as unquestionably strong. More recently, APRA has intervened to limit the growth in investor property and interest-only mortgage lending. The combination of these changes has meant a key driver of our pricing decisions in the last six months has been to meet APRA's balance sheet requirements rather than changes in cost to funds or market share. As an example, we have increased pricing on interest-only mortgages whilst at the same time offering lower rates for principal-and-interest mortgages. This encourages borrowers to move from interest-only to principal-and-interest payments at a time when interest rates are at 50-year lows. In recent months, we have seen high volumes of customers making the switch.

The final and most important area of focus for us is culture—embedding a strong service ethos and behaving in ways that earn and retain trust. As this committee has recognised, remuneration and incentives are a critical part of culture. Last year we removed all sales incentives for our tellers and our personal bankers are now incentivised equally for sales and service. We are well progressed on implementing all of the Sedgwick recommendations. For example, we have now removed accelerators from bankers' scorecards. We are committed to making sure that people who work in the banking industry maintain the highest standards of professional conduct. On 1 July, the industry launched the conduct background check protocol to stop individuals who have engaged in serious misconduct from finding further employment in our industry. At Westpac, all of our incentive schemes require staff to meet high standards for compliance and behaviour, and we can and do take action when people fall short.

We, like the other banks, have more work to do to restore trust. We also recognise that from time to time we will make commercial decisions that not everyone will like. However, our commitment is when we get something wrong, we set it right. I hope that committee members can see from the actions we have already taken that Westpac and the banking industry at large is changing and is committed to lifting our standards and running our business in the long term interests of our customers, our shareholders and Australia. Peter and I would be happy to answer your questions.

CHAIR: Thank you, Mr Hartzer. I wanted to start on this issue of intelligent deposit machines. Obviously, and you would be aware of the very serious allegations against the Commonwealth Bank. I just wanted to understand, from a commercial perspective, the commercial driver for your bank, or banks generally, in seeking to encourage the use of intelligent deposit machines.

Mr Hartzer: I should clarify that we don't have the machines that were the subject of that issue. The limit that we put on cash deposits in our machines is $4,000, which is well below the amount that was the issue. The commercial driver is pretty simple, which is the convenience for our customers to be able to manage their cash more efficiently and not stand in teller queues. Obviously, there is a savings in doing that.

CHAIR: And they would typically be small business customers who are depositing large amounts of cash?

Mr Hartzer: Typically.

CHAIR: So a higher limit, say—for instance, as you noted, Commonwealth Bank has a limit of $20,000; you have $4,000. A rationale for that might be to seek to encourage more small businesses to sign up with you, presumably.

Mr Hartzer: Potentially.

CHAIR: Then, once a small businesses signs up with you—as I understand it, these machines are not large profit centres—presumably, the relationships with those small businesses can be valuable, given the capacity to offer the small businesses other products.

Mr Hartzer: Small business banking is very competitive and it's an attractive market segment for all the banks. Anything that banks can do to make things more convenient for customers has been an important part of competition in the industry.

CHAIR: Why have you chosen to keep your deposit limit at $4,000?

Mr Hartzer: The issue of money laundering is a serious issue. It is a real scourge on society and it's a challenge for the whole economy. We work very closely with the regulators and with our own internal security people to make sure we identify, report and deal with money laundering, and we came to the view in our risk assessments that $4,000 was an appropriate limit.

CHAIR: There has been some reporting to the effect that some of the syndicates who are alleged to have been involved in the matters that AUSTRAC is pursuing the Commonwealth Bank about have also sought to make use of your teller machine networks. I am not asking you to go into anything that you are unable to by law but, more generally, are you confident that you have complied with all requirements of the anti-money-laundering legislation and other legislation in this area?

Mr Hartzer: As I said earlier, money laundering is a real challenge for the economy, and the criminals are very clever and they're constantly trying to find new ways to launder their cash. We are confident that we're complying with regulations. We work very closely with AUSTRAC, and I think it's important to mention in the context of this that just having a limit of how much you take is not the start and end of your controls. We have very extensive computer analysis that goes on that looks at patterns and transactions, and for people trying to avoid the reporting by, for example, breaking up their deposit and structuring it into multiple packets. We look for that with our systems on an automated basis.

CHAIR: I want to move onto the $3 million payment that you made towards financial literacy programs as a result of your traders, effectively, breaching the law and disclosing confidential details of clients' orders to other foreign exchange traders using code names. Two questions: what have you done to improve your processes as a result of this; and, secondly, has any senior executive been fired or otherwise held to account as a result of this?

Mr Hartzer: You're referring, I believe, to the foreign exchange enforceable undertaking that we came to with ASIC. This is a matter that dealt with some traders, mostly in the UK, going back a number of years ago. As you say, it was identified that some of these traders had disclosed information that they shouldn't have. What we have done, as part of that, is a very extensive review of all the supervisory duties around that. We have stronger controls in place now, and it's been an extensive process. There have been three separate disciplinary programs that have gone on in looking at, specifically, the accountability up and down the chain around that whole matter. None of the traders involved are with us anymore, and there have been consequences where we felt that's been appropriate.

CHAIR: What has happened to the executives who manage those traders?

Mr Hartzer: They've all been reviewed as part of this process and, where we found there to be an issue, action was taken.

CHAIR: So do they still work for the bank?

Mr Hartzer: The most senior executives do, yes, but that is after looking very carefully at the steps that they took both before and after to deal with the issue. I can say—and I think ASIC will agree—that the response of our executives when this issue emerged has been exactly what you would want in terms of getting into the detail and making sure control issues were addressed.

CHAIR: Given the upcoming implementation of the banking executive accountability regime, are you clear in your own mind as to where responsibility falls within the bank for this particular class of matter such that, in the future, it will be very clear to APRA and to the broader banking community as to where the buck stops in relation to these sorts of matters?

Mr Hartzer: Yes, I am. As I said in my opening statement, one of the subtleties around not particularly this issue but more broadly with some of the issues that have come up is that banks have typically been pretty heavily matrixed, where responsibility is shared amongst different people in the organisation. Some of that has been driven by regulators, around the responsibility for risk management and compliance policies and the like. What the BEAR is emphasising—which I think is a really good point—is that we need to make sure it is crystal clear who is accountable for each aspect of supervision, and this will drive that.

CHAIR: Okay. I want to move on to a particular case involving Mr Sudhir Kumar Sinha, who was a financial planner for Westpac and has been banned by ASIC from providing financial services, until 2022. The ASIC allegation is that Mr Sinha wrongfully advised 177 clients over a period of six years. You have been required to remediate $1.5 million in respect of those clients. This is something that went on for over six years. It obviously is not an isolated incident, given that isolated incidents generally don't go for six years, and it suggests a systemic failure within your wealth management division—we have discussed your wealth management division before—

in failing to identify Mr Sinha's behaviour. We are aware that Mr Sinha has been banned. What has happened further up the chain as a consequence of his conduct?

Mr Hartzer: If I could put some context around the Sinha case. Mr Sinha was fired by us. His behaviour was discovered by us as a result of controls that we put in place—

CHAIR: After six years.

Mr Hartzer: No. We put the controls in place in 2013 and it was identified then. He was investigated, fired and reported to ASIC at that point.

CHAIR: Sure. You reported it once you were aware of it. But the unlawful treatment of customers went on for six years, according to ASIC.

Mr Hartzer: There was poor treatment of customers and that is totally unacceptable, which is why we have remediated the case—

CHAIR: You shouldn't be congratulating yourself that you belatedly worked it out, should you?

Mr Hartzer: The financial planning world has evolved from what was an insurance brokerage model of wealth sales back in the 1990s and 2000s. It is gradually becoming a much more professionalised system that has picked up issues that needed to be better controlled. BT has been at the forefront of driving some of that, including changing the way people got paid, putting controls in place like this, which helped us identify that.

CHAIR: What were the consequences for the relevant executives involved in Mr Sinha's area?

Mr Hartzer: There was a very significant and independent review done out the managers of Mr Sinha, and up the chain. We looked all the way up and down, and the consequences were significant for several of the managers in that—

CHAIR: What do you mean?

Mr Hartzer: There were issues on performance rating and compensation, and role responsibilities were changed for a number of people.

CHAIR: But nobody was terminated?

Mr Hartzer: No-one was terminated over that, no.

CHAIR: What is your view in relation to the current conduct of the wealth management division, given this is not the only incident that we've seen?

Mr Hartzer: I think the culture is very strongly about trying to do the right thing, to find any remaining issues that are out there, and if a customer has been affected, to set it right for that customer, and to make sure we have training and controls and the quality of culture and people that our customers would expect.

CHAIR: I want to move to the issue of interest-only mortgages and so on. Can you explain to the committee what percentage of your mortgages, as at your most recent half yearly report, were held in interest-only loans?

Mr Hartzer: I believe it's about 82 per cent.

CHAIR: Interest only?

Mr Hartzer: Interest only? Sorry, I was thinking variable rates. Interest only is about 50 per cent.

CHAIR: Let's be really clear on this: so basically half of all people who have a mortgage with Westpac are not paying back any principal; they are just paying interest?

Mr Hartzer: That's not the way I would put it.

CHAIR: The value.

Mr Hartzer: No, I wouldn't say it quite like that. The subtlety is that they have the ability that they can pay interest only, but many of them have offset accounts, and they also make principal payments, effectively, either in bulk, when they want to make it, or they hold equity in the offset account. So the amortisation of interest-only accounts is roughly similar to the amortisation of someone who structured the product as principal and interest. People do that for tax reasons and they do it to manage their cash flow.

CHAIR: But they're not required to pay back principal?

Mr Hartzer: Correct.

CHAIR: Are you aware of any major bank in Australia that has such a high level of interest-only loans?

Mr Hartzer: I couldn't tell you off the top of my head, but we are aware it certainly is a significant portion for Westpac.

CHAIR: Certainly, from the research I've done you appear to be the highest of the big four banks in relation to interest-only loans. As you know, on 3 April ASIC announced it was concerned about the issue and it required several banks to change their practices relating to interest-only loans. Also, in March APRA announced it would be requiring the banks to limit their new interest-only loans to no more than 30 per cent of new mortgages. That is right, isn't it?

Mr Hartzer: That's correct.

CHAIR: To make this as simple as possible, what APRA is basically saying is that for every, say, 100 new mortgages, no more than 30 of those new mortgages should be interest-only.

Mr Hartzer: That is correct. But can I just put a subtlety on that, which is that at the time the requirement was brought in, which was a goal that we needed to meet by August, from memory.

Mr King: This quarter.

Mr Hartzer: This quarter. It was based on the net flow of mortgages. Our understanding at the time was that it wasn't just the new loans being written but also the net change in mortgages. It's just a subtlety.

CHAIR: Is that correct, Mr Hartzer? My understanding—

Mr Hartzer: That was absolutely correct, at the time the announcement was made. APRA has subsequently clarified that.

CHAIR: My understanding is that APRA has said it relates to new loans and to top-ups of existing loans—so, if someone goes from 800,000 to 900,000, that 100,000 is new, so that would count, but nothing else counts.

Mr Hartzer: That has been clarified subsequent to the original announcements.

CHAIR: Are you saying you didn't understand the impact of APRA's original announcement, or you misunderstood it?

Mr Hartzer: No, I am saying that at the time it was unclear. We engaged with APRA on that discussion and it took a number of months for them to clarify. The point is that, now, how you describe it is correct.

CHAIR: So it doesn't apply to existing loans, only if there's an increase in the limit, and APRA, as I understand it, has been very clear in spelling that out to the banks. So it's very surprising, to say the least, that you would profess any uncertainty about that.

Mr Hartzer: There is no uncertainty now, but at the time it was announced there was uncertainty and we sought clarification from ASIC, and we didn't receive it for several months.

CHAIR: Okay, so that clarification was provided.

Mr Hartzer: Yes.

CHAIR: So you know where you stand. You know it applies only to new interest-only loans, with some limited caveats for increases in existing loans. To follow through, if you only had to make sure that, say, 30 of every new 100 loans were interest only, that's pretty simple, isn't it? Don't you just say, 'Okay, we'll make sure that of 100 upcoming loans, no more than 30 are interest only.' You must know how many loans you are issuing. Surely you could just say, 'When we get to 30 per cent, we stop and we just leave interest rates as they are.'

Mr Hartzer: That's one way to do it. Can I put a little bit of backdrop on this—because it's important, as this issue has got a lot of public attention—and talk about what is driving this. There's two elements of this. There's a macroeconomic issue, which the Reserve Bank is concerned about, which is that, in the event that interest rates were to rise, if lots of customers are only paying interest they may find they have to devote more of their income to paying their mortgage, and therefore there's less resilience for economic spending in the economy as a whole.

I think it is important, because this has been picked up in the press as if this is some giant credit issue. And it's not a giant credit issue. It's an economic issue about the resilience of the economy for the future, around the ability to sustain spending. Secondly, it is an issue about making sure that both bank balance sheets and consumers have an appropriate cushion, and that it's the right time for consumers to be paying down their loans, when interest rates are at near 50-year lows. To paint this as a fundamental concern about our credit portfolio—I have personally spoken to the governor of the Reserve Bank, who has confirmed to me that the Reserve Bank's concern is not about the credit quality of the Australian banks; it's a concern about the economic resilience of the nation in the event that interest rates rise.

CHAIR: That it is all very interesting, but what we are focused on is the requirement that APRA issued to you, and that was that no more than 30 per cent of new loans be interest only. To go back to my question, why couldn't you just simply say, 'We'll leave interest rates where they are and we'll ensure that no more than 30 out of every 100 future loans are interest only'?

Mr Hartzer: We have two objectives. One is to meet the APRA requirements. The other is to make sure that the shape of our book is resilient and that our customers are heading in the right direction. In doing that, you're right, one option we have is that we can simply stop lending. That is an option. Our view is that that is not the best option for customers' choice. There are legitimate reasons—

CHAIR: Just to clarify: APRA's requirement is that no more than 30 per cent of loans be interest only. Presumably you're not suggesting it's optional whether or not you comply. It's clear that you need to limit it to 30 per cent. It's also clear that in a statistical sense it's a pretty easy thing to do. You just say that for every 100 loans no more than 30 are interest only. My question is a simple one: why wouldn't you just leave everything as it is, other than just saying you'll ensure that no more than 30 per cent of future loans are interest only?

Mr Hartzer: Because we're dealing with individual customers who have a preference and we're trying to serve the needs and desires of customers. Customers walk in and, for their own good reasons in some cases, say that they want to structure their loan as interest only.

CHAIR: Are you saying you're not going to meet the 30 per cent?

Mr Hartzer: No, we are. We took the view a better way to achieve that was to use the pricing mechanism to send the right signal to existing and new customers.

CHAIR: Let's go through that. Basically, you took the view that a pricing signal was the way to do it. But obviously it's entirely within your capacity simply to say, 'We're just going to say that no more than 30 out of 100 new loans are interest only.' You could have done that if you had wanted to.

Mr Hartzer: We could have. But the implication of that is that we then we tell customers who have good reasons to get an interest-only loan that they're too late and they can't have one.

CHAIR: Presumably you're going to do that anyway, because you have to limit it to 30 per cent. The way you're answering the question implies that it's an optional thing and you will determine whether or not you comply with it. Whether the interest rate is lower or higher, the compliance issue is the same, which is that no more than 30 per cent of loans in the future be interest only. It's a very simple question. Very clearly, why did you decide, in response to that, not just to say you'll limit it to 30 per cent, and to raise rates instead?

Mr Hartzer: Because we felt the pricing mechanism was a better way to ensure that we achieve the requirement—which we were absolutely going to do—but that we do it in a way that preserves the choice for individual customers who strongly want to get an interest-only loan.

CHAIR: The problem with that answer is that you haven't mentioned the profit impact on the bank at all. This committee is very supportive of a stable banking sector, and banks obviously do need to consider commercial issues. But I think your answer there in not mentioning the profit impact on the bank is—I would be very surprised if that was not a key part of your motivation.

Mr Hartzer: I'm telling you why we did it.

CHAIR: So it didn't have anything to do with the profit impact on the bank?

Mr Hartzer: Potentially, no. The primary driver was to manage the balance sheet. In a bank we always have to balance regulatory requirements, our funding structures, what's right for the customers and what's right for the bank. In this case, our view and our experience was that a response of increasing the interest rate on interest-only lending, reducing the interest rate on principal and interest lending, and communicating with customers and encouraging them to switch for free, was the best way to achieve the outcome for the regulator and do the right thing for the customers.

CHAIR: Can you understand why the Australian public might react very cynically to that? To suggest that your motivation in raising rates was in no way related to the profitability of the bank, which is what you just said—do you really think that's a credible response?

Mr Hartzer: I'm saying that the primary driver—obviously we consider commercial issues in things that we do. You're asking me about a specific change in interest rates. I'm telling you the truth, which is that the driver of that was the meet the APRA requirements while preserving choice for customers. By the way, we put that explicitly in our press release at the time.

CHAIR: I'll come to your press release in a moment. Let's go through that in a bit more detail. We know that it only applies to new loans, and we have clarified from your earlier statement that it didn't apply to all the old loans—it only applies to new loans. We also know that about half of your mortgage book is interest only. I did some rough numbers. You don't publish the exact number of interest-only loans, but if you look at the averages and so on you can work it out. I came up with a rough number of about 800,000 interest-only mortgage loans that you may have on your books. What do you say to those 800,000, or whatever the correct number is, of Westpac customers, who have existing interest-only loans, where APRA's action had nothing to do with them, where you said to all of those existing interest-only customers, 'We're going to put up your rate in June by 34 basis points'? What's your message to them?

Mr Hartzer: Switch to a principal and interest loan; it's cheaper.

CHAIR: Why have you applied that APRA requirement to them when it doesn't relate to them?

Mr Hartzer: As I said, there were two goals we were trying to achieve. One was to meet the APRA requirement; the other was to shift the book to principal and interest loans because it's the right thing to do at this stage in the economy. That's why we have lowered the interest rates on principal and interest loans, which are available to all those customers, giving them the ability to switch for free. We have written to them to encourage them to do that—and many are.

CHAIR: I had a look at some analysts' reports following on from your movements on these interest-only loans. I want to paraphrase from a few of those. On 30 June, Macquarie said, 'We estimate a 3.6 increase in earnings due to Westpac's movements on rates.' On 26 June, Credit Suisse said, 'So far Westpac appears to be the key beneficiary of the industry's successful mortgage repricing; upgrade Westpac to outperform.' On 19 July, Morgan Stanley said: 'Upgrade Westpac to overweight. In our view, Westpac is a major beneficiary, more than its major peers, from the accelerating trend towards differentiated repricing.' On 6 October, CLSA looked at the same issue and thought that this repricing would increase your net interest margin by 11.6 basis points.

It does appear that what you have described as a response to the regulator has had, from your perspective, the happy coincidence of a meaningful increase in earnings. You're saying to the committee that that's not something that is materially factored into the decision-making process?

Mr Hartzer: I'm saying that the decision that we made in June was a decision about meeting the APRA requirements in a way that sent the right signals to our customers and our balance sheet as well as meeting the APRA requirements. Of course, when we have changes in margin, it's going to have an impact for a period of time. I would also say there's a significant level of switching going on. I think the level of switching increased by about 70 per cent in the third quarter. Therefore, the ultimate effect on our margin and our profitability remains to be seen. Our financial year just closed in September and our results will be fully out in the public in early November, and you're welcome to look at that and I'm happy to comment on it at the time.

CHAIR: Certainly the analyst consensus seems to be that those changes will have a very positive impact on your earnings. On this issue of compliance, you're obviously saying this is a compliance issue. I'm sure that most in the committee would understand when companies take action to effectively cover the cost of compliance. If there's a new regulation that is introduced and has a cost, I think most people would accept and understand that companies would need to take some action to, in a sense, leave themselves no worse off. But it would seem to be quite a different matter if that is the public justification, but what the underlying numbers suggest is that compliance is effectively being used as a profit centre. It would appear, certainly based on the analysts' work on this issue, that there's a strong case that's what you have done.

Mr Hartzer: I would reject the suggestion that compliance is profit-centred. In fact, compliance with new regulations that we're dealing with will probably cost us between $300 million and $400 million a year. That's not an amount that we are recovering.

CHAIR: We had ASIC before the committee a couple of weeks ago, I asked the deputy chairman about this issue and whether they would be concerned if the public justification for a rate rise was different to the underlying justification. Mr Kell said: 'Yes, it would be a concern. In effect, it would go to whether the public justification or explanation for an interest rate rise was inaccurate, false or misleading, and therefore in breach of the ASIC Act. We've noted concern around this. We're looking at this issue. We'll be working with the ACCC, who, as you know, have a specific brief to look at some factors that have contributed to interest rate settings. It's an issue we're concerned about.

I think, as you know, under the leadership of Marcus Bezzi at the ACCC there is now the financial services unit team. I think there are 12 or 13 people now who are going through all the internal documents—the internal emails, the board minutes, the subcommittee minutes—in relation to these matters and interest rate pricing. When Mr Bezzi's team go through all of the internal documents in relation to this June interest-only rate rise decision, do you think that they'll find that the internal discussion within Westpac reflected that an increase of an interest-only book of this size, the entire book, was required in order to leave the bank no worse off?

Mr Hartzer: We are highly aware of the ACCC review of this, we're highly aware of ASIC's comments and we are scrupulous in making sure that what we are saying about what we're doing is consistent with that, both internally and externally. When the review comes—and we have already submitted significant documents—they will be consistent with what I'm telling you.

CHAIR: That wasn't my question. My question was: will they find that a rate increase of the size that you've pushed through was required in order to leave the bank no worse off as a result of the regulation?

Mr Hartzer: No worse off—I'm not sure what you mean by that. I've explained the goal was to reach the APRA requirements.

CHAIR: You said that your motivation was not a profit based motivation and I've said that I think the vast majority of people, if you were responding to the regulation and saying, 'This is what we need to do to be whole,' so to speak, after the regulation, would accept that and understand it.

Mr Hartzer: I'm just not sure I'd accept that formulation of 'being whole'. It wasn't about that; it was that we have to reach this 30 per cent cap as we understand it, and we want to reshape our balance sheet so that customers are oriented toward paying down their principal at a time when rates are low, and we cut principal interest rates to do that. In the end, it is a judgement about the extent of the pricing gap that's going to be needed in different products with different segments to effect the change you want to effect, but that was our judgement of the change we needed to make.

CHAIR: On that criterion, that is a subjective criterion which would effectively say that any judgement you made in relation to a purported response to a regulatory change was okay. Is that the way you think about it?

Mr Hartzer: I wouldn't characterise it that way, but I would say, yes, pricing is a judgement. We don't run the bank purely with a simple calculation and a spreadsheet. We make judgements about what's going to happen in markets, what's going to happen with regulation, what our competitors are going to do and how customers are going to respond, and in the end we take those things into account and make a judgement.

CHAIR: Will Mr Bezzi's team find that there is a document where the bank has sought to calculate the cost to it of this regulation?

Mr Hartzer: Not exactly. Peter, do you want to comment on this?

Mr King: The discussions internally have been about the shape of the mortgage portfolio in the future. One of the first objectives, as you stated, is that our portfolio has a skew towards interest only and we want to move that over time.

CHAIR: You've got lots of financial analysts. I would have thought that somebody would have calculated—'We're at 50 per cent interest only now. If we go down to 30 per cent of new, because interest-only loans are more profitable, that's going to have an impact on the bank and this is what the impact, broadly, is likely to be.' Surely, someone would have done that analysis.

Mr King: It's a difficult one to answer because it is—

CHAIR: It's a simple question.

Mr King: It's behavioural economics about what price point makes people change.

CHAIR: And my question is: did you do that analysis or not?

Mr King: We're working in a market. It's judgement; there is not a document that exists that says, 'At different price points, this is what we think will happen.'

CHAIR: So you wouldn't have done an analysis to demonstrate the impact on profitability to the bank if the interest-only future book went to 30 per cent as compared to the existing trajectory?

Mr King: No; we would have modelled the impact on profitability of the changes, and a big input into that is how much switching will happen.

CHAIR: I understand that.

Mr King: The very important point is we're writing to customers to make sure that they understand the difference in the price, and they can make a choice about whether or not they want the interest-only flexibility.

CHAIR: That's well understood. So you would have done that analysis to work out what the profitability impact on the bank would be of that change in flow of the interest-only book, and then you've represented to the public and to probably 800,000-plus borrowers who are affected by this that this is in response to that regulatory change. So, when Mr Bezzi's team go through and look at the public statements you've made in relation to this issue and the actual financial impact, which is effectively what Mr Frazis in your press release of 20 June used to justify the change, will they see those two things are correlated or will they see that the change is actually materially bigger than the financial impact on the bank was likely to be?

Mr King: Again, it depends on how many customers switch.

CHAIR: Yes, I know, but you've just said that you've done the analysis.

Mr King: But we don't know the final outcome.

CHAIR: No, of course you don’t know the final outcome.

Mr King: It's gone up 70 per cent, so it's a question about the future. We'll see.

CHAIR: That's not my question, Mr King. My question is: did you do the analysis? I would have thought, as a $100 billion organisation, you probably would have. Of course, it's financial analysis—it could be right; it could be wrong—but there was a fact set that said, 'Here is what we, Westpac, think the impact on profitability would be of complying with this 30 per cent interest only change.' You've established that that exists—that you've done the analysis. It might be right or wrong, but you've done the analysis. So, we know that. We know that you've publicly justified the rate rise on the basis of the regulatory impact imposed by APRA. My question is: when Mr Bezzi's team from the ACCC goes through all these documents very carefully—which I'm sure they will—will they find that there's a correlation between those things, or will they find they're actually very, very different?

Mr King: Mr Bezzi will see that there were a lot of discussions internally on the shape of the mortgage book that we're trying to achieve, as well as hitting the APRA regulatory requirement—

CHAIR: That doesn't answer the question.

Mr King: That's what he'll say.

Mr Hartzer: The answer is: they will see what we have said we did.

CHAIR: Neither of which answers my question. I've asked you, 'Was there a profitability analysis done in relation to this?' and you said yes. Then I asked you, 'Does the size and scope of the change that you've put on interest-only loans reflect that estimate of the bank of the impact of this regulation?' Because, as I said, if what you're doing, as you've said, is responding to the regulation, and the change that you've pushed through corresponds with your internal analysis, then I think it would be difficult for people to be critical of that. If, however, the analysis of the impact to the bank is X, and the rate rise that your customers have to pay is actually a lot higher—and the analysis of the investment banks suggests that that is the case—then I think it would be a matter that would be of great interest to Mr Bezzi's team.

Mr Hartzer: I think it's the other way around. We made estimates as to how big of a differential we would need to change in the different rates in order to achieve the regulatory outcome that we were striving to achieve, which was the primary driver. Then, yes, of course, we update our forecasts, financially, as a result of those changes—not the other way around. We didn't make a financial forecast and then say, 'What rates should we change?' We said, 'How much do we need to change the rates to drive the behavioural outcome we're trying to achieve?' and then, 'What do we estimate the financial impact of that is going to be?' What Peter's saying is that we made a forecast, but the truth is that whereas often our forecasting is pretty accurate, in this case, we found and continue to find it very hard to know what the net effect is going to be, because we don't know what the switching is going to be.

CHAIR: The key question is: will the internal analysis that Mr Bezzi goes through, in terms of your assessment of the profitability impact of these changes on the bank, be correlated, in an economic sense—because that's what you used as a public justification, right? But then you've gone and said, it goes up 34 basis points—front book, back book, everybody. If there isn't a correlation between those two things and they're different numbers—and, again, the fact that the analysts are saying this is so profitable for you suggests they may well be different number—then, you know, looking at Mr Kell's comments about the importance of you making accurate statements about the reasons for the decisions that you take, I think that may well be of interest to Mr Bezzi.

Mr Hartzer: The statements are accurate and they will be seen to be accurate, but they do reflect judgement. It's not a mathematical formula; it was a judgement that we made.

Mr King: We had two objectives; one was to meet the APRA requirement, and the other was to reshape the mortgage portfolio to have less interest-only, which required some back book switching.

CHAIR: I will do one more issue and then pass to Mr Thistlethwaite. I have a couple of other matters; I might come back to you later. This issue around contactless payments and payWave: as I understand it, if somebody has a debit card, say a Visa or Mastercard debit card, and they use payWave, it's generally the case that that transaction is routed through the credit network rather than the EFTPOS network—is that right?

Mr Hartzer: I saw that article that you're referring to. Maybe just a little bit of background on this. First of all, it's really important that the public understands: customers do not pay anything different depending on whether they tap or insert the card. There is no difference in the fees paid by customers depending on how you use your card; it's completely agnostic.

Tap and go, which has been extremely successful in Australia, is an initiative of the international card schemes. It uses standards set by Visa and Mastercard, and the Australian banks have rolled that out and it has been embraced by businesses as well as consumers. EFTPOS is a domestic scheme. Until recently it had no ability to do contactless payments. So when you used a contactless card you were, by definition, using a Visa or Mastercard that participated in that scheme, and therefore there was the interchange fee, which is a fee paid internally between the banks to compensate each other for the cost of the transaction, because you were essentially doing a credit transaction via the scheme rails, if you will. More recently, EFTPOS developed its own contactless capability and, if a customer uses an EFTPOS card at a terminal, it will go as an EFTPOS transaction. So the point is not—

CHAIR: Hang on. Most people would think of a debit card that has a Visa chip as being EFTPOS capable, which presumably it is?

Mr Hartzer: Yes.

CHAIR: But are you saying that that transaction will now go through EFTPOS, or that, because there is a Visa chip on it, it will go through Visa?

Mr Hartzer: If it is a Visa or Mastercard chip and has the functionality of that, it goes through Visa or Mastercard.

CHAIR: So now that EFTPOS is available, and because, as I understand it, EFTPOS has materially lower fees—which, as you say, are usually paid by the merchant—

Mr Hartzer: Are always paid by the merchant—

CHAIR: If they are always paid by the merchant then obviously the merchant can take action in relation to that. Shouldn't it be the case that that should be routed to the EFTPOS route because that is a better outcome for the customer, because it is a lower fee?

Mr Hartzer: There is no difference for the customer. The customer pays no fee. There is no fee to a customer to use a debit card or a—

CHAIR: The customer in this case being the merchant?

Mr Hartzer: Well, the merchant can choose. This is about: which card does the customer pull out of their wallet? If the consumer wants to use their cheque account to access their money—

CHAIR: I know where you're going with this, but let's just stay anchored to the real world. As I understand it, for the average person who has a debit card, their card will often have a Visa chip on it, or a Mastercard chip or whatever it is. They are not experts in the internal systems of bank payments and routing networks and so on. If that person presents with a debit Visa card, if you, the bank, route it through EFTPOS, the fee to the merchant is, according to the Reserve Bank, about 40 basis points lower than if you choose to route it through the Visa system. You are right that the consumer doesn't always directly pay for that, but obviously the merchant does. So the question is: in that case, where someone presents with a Visa or Mastercard linked debit card, surely, from a competitive perspective, in a competitive market what should happen is that the lowest cost route should be chosen, which is EFTPOS rather than the credit route.

Mr Hartzer: That is an interesting perspective. It depends on what that card is. One of the things that is relatively distinctive about the Australian market is that we do have the ability to carry both credit and debit on the same card. Most markets don't have that. Typically, someone has a savings account or a cheque account linked to their credit card, and so, when they pull that card out, the merchant doesn't know which account they mean to use—

CHAIR: But the system does, presumably?

Mr Hartzer: Well, it depends—

CHAIR: If it is a debit-only card—

Mr Hartzer: If it is a debit-only card and it has got the functionality of a Visa and Mastercard, then it is going to run on the Visa and Mastercard rails.

CHAIR: Yes, but why? That is the question. EFTPOS is lower fee.

Mr Hartzer: Because Visa and Mastercard built the system and, until recently, EFTPOS didn't have one.

CHAIR: Okay, so now EFTPOS has a system—

Mr Hartzer: You can use an EFTPOS card in an EFTPOS terminal. We are issuing those. If that's what people want, they can have it.

CHAIR: Okay, but someone is presumably not going to say, 'You know what? I want to save 40 basis points on the merchant's fees, so I'm going to take out my card and tap in my PIN and press EFTPOS.' Again, to stay practical, people like payWave—

Mr Hartzer: They can do that.

CHAIR: It is a good service, payWave, and people like it, but, if the capacity is there to route it through EFTPOS, which is materially cheaper to the merchant, and to provide the same service to the consumer, that functionality is now available. In a competitive market, isn't it the logical thing that it should go to the lowest cost producer not the highest cost?

Mr Hartzer: There are a couple of different issues that are overlapping here. The point is that a contactless EFTPOS card can be used in an EFTPOS terminal and it would go that way. When you talk about a Visa debit card, you don't know the functionality associated with that card. Visa and Mastercards often come with extra benefits to have an instalment loan to get reward points, and even debit cards will often have special rewards associated with them. That is afforded by the interchange that comes out of that. It is important to remember that banks don't make money on interchange. Interchange is a cost recovery mechanism that is set by the Reserve Bank of Australia, and Australia has one of the lowest interchange rates in the world.

What you are suggesting in saying you will automatically default a Visa or Mastercard branded card to an EFTPOS rail potentially has a significant impact for the value that the consumer will actually get from using that card in the future. As to the fact that EFTPOS can do contactless—it is available; you can have it; we offer it, I don't understand the issue.

CHAIR: Why wouldn't you just have the standard contract that it goes to the EFTPOS route, the lower cost route, unless the cardholder expresses otherwise, rather than automatically going to the higher cost route?

Mr Hartzer: It's more complicated than that. We don't know which card the customer wants to use and which account the customer wants to use. I think it's important to say that merchants get benefits out of the fact that Visa and Mastercard are there and provide this technology. We are able to take advantage of a global scale of technology innovations by offering this sort of thing. It doesn't come free. The merchants benefit from this.

Mr THISTLETHWAITE: I would like to ask some questions about the AUSTRAC allegations against the Commonwealth Bank. In their statement of claim, AUSTRAC alleged that half of the six money-laundering syndicates that they have identified as using Commonwealth Bank funds to wash funds through also used ANZ and Westpac accounts to wash major portions of their funds. Is that true?

Mr Hartzer: I don't know and I couldn't comment on a specific case. What I can say is that money laundering is a very serious issue for all financial institutions. It's something we take very seriously. We spend tens of millions of dollars on systems and controls around this. We work closely with our regulators to identify and report any suspicious transactions. We take action and work with the police when they have an issue that they want to deal with. We carefully review all of our processes and our technology to make sure that we can have that. But the criminals are very clever and they are constantly trying to come up with new ways to launder their money.

Mr THISTLETHWAITE: Are you aware that AUSTRAC made these allegations in their statement of claim and that they included Westpac?

Mr Hartzer: I saw the statement. We speak closely with AUSTRAC and we are constantly working with them constantly. Money laundering is a serious issue in this country and the banks are working hard with the regulators to stop it.

Mr THISTLETHWAITE: When you saw those allegations, did that concern you?

Mr Hartzer: It's always a concern to me that money laundering is going on but it is not a surprise to me. There are lots of criminals out there trying to launder huge amounts of money. We are in a constant escalating battle to make sure that we identify and shut down any avenues for them to do that, and we are working closely with the regulators to do that.

Mr THISTLETHWAITE: In the wake of those allegations, did you ask AUSTRAC about the information that they are alleging? Did you seek to audit any of those transactions to see if this is the case?

Mr Hartzer: We are in constant conversation with AUSTRAC on these things. I am sure those conversations would have happened. It is an ongoing conversation. We're constantly making reports. We make thousands of reports all the time when we spot suspicious transactions, and we work on matters with them and with the Federal Police all the time.

Mr THISTLETHWAITE: It sounds to me like you are giving a preprepared standard answer. I'm just trying to get to the bottom of how widespread this is across the banks. For this reason, I'll give you a quote from Ian Narev. In the wake of these allegations, he said, 'Any CEO of a major bank anywhere in the world who says they definitely don't have a problem with financial claims compliance would be a very bold CEO'. That concerns me, because, as you've identified, money laundering is quite serious. He is saying, as the CEO of one of the biggest banks in this country, that all banks have a problem with complying with this legislation and that it's too complicated. For us as legislators, if that is the case, we need to know. Can you comment on that? Is it the case? If these allegations have been raised by AUSTRAC about your bank, was it discussed at a board level? Did you seek to audit it? Did you increase the compliance associated with it? These are rather serious allegations.

Mr Hartzer: I can't comment on a competitor's situation or their assessment of it. What I can say is: we talk to AUSTRAC all the time. I have personally spoken to the head of AUSTRAC. Obviously, when this issue at that bank arose we were all very concerned to make sure that we didn't have that issue. We have had it in writing from AUSTRAC that we do not have the issue, and they have said that publicly—with respect to the issue that the Commonwealth Bank had. We continue to deal with them on lots of issues. Money laundering is a very complex topic. There are overlapping regulations from different countries. We have many businesses. Criminals are clever. What I can say is: we have a very thorough process, strong controls. We invest heavily in systems and people. We talk about it at the board—to that part of your question. It is reviewed at our risk committees constantly. We have special committees looking at issues every time they arise. We take it very seriously.

Mr THISTLETHWAITE: When this issue was raised by AUSTRAC in their statement of claim and your bank was named, was it discussed at the board level?

Mr Hartzer: I can't recall whether that specific item was discussed. I can assure you that, given the attention that the AML issue has had since Commonwealth Bank's problem, it has received a lot of attention at the board. We talk about the issue and what we're doing about it in a tremendous amount of detail, as we do at my executive committee.

Mr THISTLETHWAITE: Were there any interactions with the risk committee by any executives or yourself about increasing the compliance, looking at further auditing to see if what is alleged by AUSTRAC is true?

Mr Hartzer: Our board is very concerned about AML controls and compliance, as am I and my executive team. So we have absolutely talked about it. We have ramped up focus on reviewing and resolving any outstanding issues that we may have. We're in constant contact with AUSTRAC on any issues that they have.

Mr THISTLETHWAITE: Ian Narev also claimed that the CBA would seek to use court discovery to query whether rival banks have made sufficient disclosures regarding suspect trading. Has CBA sought to use court discovery with Westpac?

Mr Hartzer: Not that I'm aware of. But that's a matter for them.

Mr THISTLETHWAITE: So there has been no interaction with your lawyers about using discovery of your disclosures to AUSTRAC?

Mr Hartzer: Not to my knowledge.

Mr THISTLETHWAITE: Are you confident that your bank has made the necessary disclosures in every case to AUSTRAC regarding the anti-money laundering legislation?

Mr Hartzer: Yes.

Mr THISTLETHWAITE: I will move on to the next issue—that of an ANZ executive's identity being stolen and used for a $30,000 Westpac loan. Are you aware of this issue?

Mr Hartzer: I have heard about that issue.

Mr THISTLETHWAITE: Were you surprised to learn about this—that someone had stolen the identity of an ANZ executive? I understand it was as simple as photocopying a driver's licence. They then used this to get a loan for $30,000 with your bank.

Mr Hartzer: I don't think it's appropriate that I comment on a specific customer issue. I think what it highlights is that the risk of identity fraud and cyber security is a very serious issue, and we're all paying a tremendous amount of attention to it.

Mr THISTLETHWAITE: Surely this has exposed some failings in your organisation regarding identity verification. Have you done anything about it?

Mr Hartzer: What it exposes is that the criminals are continually trying to find ways to defraud us. We have to continue to invest in improving controls around that. We do do a lot of identity checking. Again, I'm not specifically sure what happened in this case. I can take that on notice if it's of interest. I'm confident that there's plenty of attention on making sure that our customers' data is secure.

Mr THISTLETHWAITE: Did this incident trigger an audit or a review of the circumstance?

Mr Hartzer: It would have done, but I would have to confirm that on notice.

Mr THISTLETHWAITE: Did it identify that some of your processes, in terms of maintaining security of important documents, like drivers' licences, were insufficient?

Mr Hartzer: I'm not aware of any finding like that. What I can say is: people do try these things on all the time. We do catch things and we stop it. But we can't guarantee that nothing is ever going to get through.

Mr THISTLETHWAITE: Was it reported to ASIC?

Mr Hartzer: I would have to take that on notice. That incident, as far as I can see, attracted attention because of the profile of the person involved. But criminals are trying to do this all the time, and we have huge teams of people and investment designed to catch and stop this stuff.

Mr THISTLETHWAITE: I want to move to the issue of David St Pierre. We have asked questions about this in the past, and in the last round of hearings I asked you a series of questions regarding David St Pierre. You said, in response to one of my questions regarding when you reported him to ASIC: 'We did report it, but I have to take it on notice. I believe it would have been right around the time that we launched the investigation.' It has been uncovered that it was actually two years after you were aware that he was being investigated by your bank. Why is it the case that it took two years after you were aware that he was being investigated for dodgy practices? Why did it take two years to report him to ASIC?

Mr Hartzer: I don't know the detail on that one. It is obviously unacceptable. I am sure as part of the review on this we would have tightened up the disclosures on those things.

Mr THISTLETHWAITE: How do you not know the detail? I asked you questions about it last time and you answered them. It was a further subject of questions on notice in this last hearing, and in the answers to the questions on notice it became apparent that the response you had given at the hearing was wrong and that it was actually two years later. The other alarming issue about this is that ASIC didn't know that it took two years to report him. They found out again through a hearing of a Senate committee. Do you think it is acceptable that you started an investigation into this bloke in October 2010 but it took you two years to report him to ASIC, when you knew that he was potentially engaging in dodgy practices?

Mr Hartzer: It is completely not acceptable, and I make a full apology for that. Our processes should have been better. This guy did the wrong thing. He took advantage of customers who were vulnerable and he was fired. It took us too long. We have reviewed the process and tightened up our controls around this. I am sorry, but I don't remember the detail now. It was six months ago and we have had a lot going on. He has gone. I know that the issue has absolutely been looked at, and my message to our people is very clear: the culture is that when we find these things we highlight them and report them to ASIC.

Mr THISTLETHWAITE: In the two years between highlighting these issues, the bank beginning an investigation and the reporting to ASIC, did he continue to advise customers?

Mr Hartzer: He stayed on the books for a while. From memory, the issue with Mr St Pierre was he was fraudulently creating documents and things like that that made it difficult to get to the bottom of what was going on. Do you remember the detail a bit more?

Mr King: No.

Mr Hartzer: I'm sorry. I thought this one was gone, otherwise I would have prepared more detail on this. I am very happy to come back and give you more comprehensive detail on this. I would reiterate: we are absolutely clear that this should not have happened. The guy deserves to be fired and banned from the industry, and our process of finding him and dealing with him was inadequate. We have made changes to make sure it doesn't happen again.

Mr THISTLETHWAITE: They are quite serious allegations. This was someone who was subsequently prosecuted and sentenced in February this year. You are saying that he continued to advise customers over that two-year period. That is alarming because they had doubts about him. You began an investigation. You are saying that he was involved in forging documents for two years. That continued to occur. That is quite serious.

Mr Hartzer: Again, I would rather come back to you in detail on this than try to search my memory from six months ago. I can tell you that all the customers that he affected were reviewed, and where we found any issues we would have remediated them.

Mr THISTLETHWAITE: We might put some further questions on notice about some of the details regarding that. I want to ask some questions about the ASIC case against Westpac concerning responsible lending. Has Westpac recently amended your consumer credit assessment for customers with respect to residential home lending?

Mr Hartzer: We make changes all the time and have been in consultation with ASIC on a number of matters. The background on some of these things is that you have the National Credit Code, which lays out legally what needs to happen. Banks then have to interpret how to put those laws into practice. In some cases the specifics of the regulations are not clear, and at later times the regulators will then provide more specific guidance about what they believe the interpretation of the law means people have to do and not do. There have been some cases where our intent was to comply with the law, and then the regulators have found a different interpretation of what we need to do, and when that happens, we change our practices. The responsible lending issue that you are alluding to, where ASIC has taken legal action against us, is an example of that, where it is our contention, and we are defending the case, that we have complied with the law and have met the requirements around assessing those customers and lending responsibly. However, ASIC's interpretation of the law is different, and therefore we have a dispute about whether or not we've met the obligations as they see them.

Mr THISTLETHWAITE: There's a heightened sensitivity, in the wake of the global financial crisis, about responsible lending. APRA have introduced new lending requirements for banks about the amount of capital that they need to hold. It appears that all the banks do this. They use benchmarks for living expenses rather than actual living expenses. What's best practice?

Mr Hartzer: We use both. Peter might want to talk a bit about how to do this.

Mr King: The change you're referring to was back in 2015, where we moved to the higher of declared expenses or benchmarks. What we find is a lot of people underestimate their expenses. That's why benchmarks have a role in assessing people's applications, because the expenses they declare are too low. That's one of the challenges when you're verifying expenses, in particular about income. It's more natural for people to know what they're earning, because if they're a salary earner, they'll get a monthly or fortnightly payment, but in relation to expenses, it's not something they can easily recall. We have to look at both declared expenses and benchmarks, particularly for people who aren't declaring enough expenses.

Mr THISTLETHWAITE: Why don't you just use actual expenses?

Mr King: In the case of someone who's not declaring enough expenses, underestimating their expenses wouldn't be the right thing to do.

Mr THISTLETHWAITE: If they're existing customers with you, surely you'd have access to their transaction records and you'd be able to sit down with them and say, 'We think you've under-declared here; can we go through this together?'

Mr King: That's how we use the benchmark. That's the role of the benchmark. The benchmark is different between states and different between cities and regional areas. We also look at the benchmark depending on total levels of income. We'll adjust expenses higher if you earn more.

Mr THISTLETHWAITE: When did you make the change?

Mr King: 2015.

Mr THISTLETHWAITE: How does this sit with loans that were made prior to your making that change in terms of credit assessment with your responsible lending duties?

Mr King: We were using a different process. We think it was in accordance with the law, but ASIC believes there are some questions, and that's why they've launched the case that they have.

Mr Hartzer: The overarching statement, though, is we're very comfortable with the quality of our credit book. We don't lend to people who can't pay it back; it's not in our interest to do so. We have a whole bunch of other controls that go on in the lending process, including interest rate buffers and the like, which are all designed to make sure people can afford their loan even if rates were rising.

Mr THISTLETHWAITE: I would like to ask some questions about BT's approved product list in terms of life insurance products. According to some reports in *The Australian* newspaper, under the approved product list, Westpac's BT financial advisors recommend only one life insurer—that is, Westpac Life. This is contrary to industry recommendations. It's contrary to recommendations of the Trowbridge review on retail life insurance advice. The Financial Services Council have said it's not acceptable to have just one life insurance product offered. Is it the case that BT financial advisors have only one life insurance on their approved product list?

Mr Hartzer: No, that's not the case. While BT advisors overwhelmingly sell BT life insurance—and that shouldn't be a surprise to someone who's coming to a BT life insurance rep—they have the ability to access non-BT product if that's appropriate. The point is that we're very happy with the quality of the products that we put out in BT Insurance. They win awards all the time. They're designed for different life stages. We pay over 90 per cent of claims.

I know that different people, particularly if they're independent brokers, have a different view, but our view is that insurance is a very appropriate product for us to provide to our customers. We have a motivation to pay claims when something goes wrong because we're trying to sustain the long-term relationship with our customer. Our view is that, if we have a suite of products that suit different life stages and that are well structured and good value, that's what we can and should recommend. But, if one of those products is not suitable for a customer for different reasons, our advisers have the ability to access other products, and, in some cases, they do.

Mr THISTLETHWAITE: ASIC recently conducted an audit of life insurance products for certain providers, and they found that BT Financial Group was the worst performing in terms of claims history.

Mr Hartzer: I disagree with that.

Mr THISTLETHWAITE: Sorry, I meant claims rejection rates.

Mr Hartzer: That was a specific issue that related to total and permanent disability insurance, and it related to a very small number of claims. It's subsequently been seen that some of the data really is an apples to oranges issue. That's a very broad statement that's not correct. The broad view of BT's overall insurance products is that they are very highly regarded and very highly rated, and the claims payment history is very good.

Mr THISTLETHWAITE: Are your financial advisers encouraged to offer the BT life insurance product?

Mr Hartzer: Yes, they are. That's because they're good-quality products, and we stand behind them.

Mr THISTLETHWAITE: How can you say that if there's this report from the independent regulator that says that that's not the case in terms of claims rejection rates?

Mr Hartzer: Again, the report you're referring to is about a specific category of product, which is total and permanent disability.

Mr THISTLETHWAITE: Which is a large part of life insurance.

Mr Hartzer: The number of claims for that to happen is relatively small. There were some statistical issues in the way that that data was reported, including the fact that the way that we tracked claims that were denied included people who didn't even have the product with us. It was thought that they did have the product and did make a claim. So we're happy to come back on notice and give you more detail on that specific thing, but I reject the generic observation about BT insurance products because it's not true. That was about a specific product category, and the broader view on BT's insurance products is that they're very highly rated and provide very good value.

Mr THISTLETHWAITE: You say that advisers can offer other products. In response to a question on notice to the Parliamentary Joint Committee on Corporations and Financial Services, it was uncovered that, yes, you can offer other products. But it takes four days from request, which is reviewed by the group's advice research team and, in rare cases, is escalated to senior management. It appears that you try to do everything you can to stop that person accessing another product. That's the case, isn't it?

Mr Hartzer: The point is that, for insurance, we offer a suite of products that we work really hard to make sure are good value, and that's what they're offering. They're not pretending to be an independent insurance broker—that is another offer that's out there in the market. However, the products were structured, and the bias that we have is that we want to pay claims and we want to provide good value for our customers because we want them to stay with us for long periods of time.

Mr THISTLETHWAITE: Is this particular product the only one on your approved-product list?

Mr Hartzer: No, there's a variety of products there. There are a number of different insurance products that are designed for different life stages for people. Someone who's young and doesn't have dependents has different needs than an older couple, for example. The way that the BT suite of products is designed is to be suitable for those different groups.

Mr THISTLETHWAITE: But are they all BT products?

Mr Hartzer: What do you mean by 'all'?

Mr THISTLETHWAITE: You said that there's a suite of BT products.

Mr Hartzer: Yes, there's a suite of BT products.

Mr THISTLETHWAITE: They're not other products from other providers?

Mr Hartzer: No.

Mr THISTLETHWAITE: Isn't that contrary to the Trowbridge recommendation that was made in March 2015?

Mr Hartzer: I'd have to see specifically what you're referring to. Again, we feel confident about the quality of the products that we're offering. We're very transparent with people about what's available to them from our life insurance people. That's what they're doing. For those insurance products, we think that that's a suitable business model.

Mr THISTLETHWAITE: Don't you think, if you are acting in the interests of your customers, it would be better to put more products on that list to suit their circumstances, perhaps non-BT products?

Mr Hartzer: As I said, we do have a best-interest duty. We believe our products are very competitive and provide good value because they suit the life-stage needs of the customers and we do have the ability, if those products aren't suitable, to go outside.

Mr THISTLETHWAITE: I just want to have a look at the issue of some of your retail superannuation funds. You've got a range of retail super funds, and it appears that some of them act as shell companies with no investment fees or investment expenses. For example, Westpac Master Trust super fund has 247,000 member accounts with a total of $5.8 billion in funds under management, but they record zero per cent investment fees and zero per cent investment expenses. Does that super fund really cost nothing to run?

Mr Hartzer: Essentially, these are pass-through structures. Our approach on the investment side is that we want people to have a big choice and be relatively product agnostic. We make available a variety of different funds, through structures for people, that suit different life-stage needs.

Mr THISTLETHWAITE: Are there associated entities that relate to that fund, that Master Trust super fund, where the fees are charged?

Mr Hartzer: I would have to take that on notice. But I expect that's a structure that then passes through different external funds on which people would see the reporting of what the fees were that were associated with those different funds. I don't—can you help me with this one?

Mr King: No.

Mr Hartzer: I'm sure that is a legal structure but it's transparent to the customer, which funds they're invested in, and the fees associated with those would be transparent as well.

Mr THISTLETHWAITE: So you don't know what the fees are?

Mr King: I think we'll take that one on notice.

Mr Hartzer: I'm pretty sure I know what this is. We have a corporate structure that brings together the ownership of a whole bunch of different funds. A customer would own a proportion in those different funds and they would see what they owned, and they would have the disclosure on each of those funds as to what the fees were that were associated with that.

Mr THISTLETHWAITE: So you do disclose the fees in each portion of those other funds to the customer.

Mr Hartzer: Yes, as far as I know. We'll take that on notice and double-check.

Mr THISTLETHWAITE: Do you disclose to the customer how much profit each one makes and how much is transferred back into BT principal?

Mr Hartzer: I'm afraid I don't understand that question.

Mr THISTLETHWAITE: If divisions of those funds make profits on the fees and the commissions—

Mr Hartzer: Those are investments, so they go to the members. The fees are the administrative fees and different fund managers would have some margin built into that. But that is taken out of the fee that the customer's paying. The rest of the growth in the fund is for the customer's account.

Mr THISTLETHWAITE: I'm assuming, in offering the retail funds, you make profits on them at some stage?

Mr Hartzer: We would, typically, charge an administration fee overall for managing the account, and that's disclosed to the customer.

Mr THISTLETHWAITE: So that's how you make a profit?

Mr Hartzer: Typically, yes. In our approach to wealth management you will have noticed that we sold down our holding in BT Investment Management, which is an asset manager. What that represents is our strategy around wealth. For the most part, we don't want to be the owner of the actual asset manager who is making the investment decisions, we want to provide the platform that allows customers to manage their money however they want to do it, whether directly or with the adviser. Then we charge an administration fee, to give the customer the ability to manage those assets.

Mr THISTLETHWAITE: Are those fees typically higher than the industry funds?

Mr Hartzer: It's an apples-and-oranges comparison because we're providing a platform to manage multiple funds. An industry fund is a simple product; it's like what would be a component of what you would hold on the platform. A better comparison, depending on the nature of the fund, is the management fee of an asset, of an industry fund versus another fund's management fees. The platform fee is something different that those different kinds of funds would plug into.

Mr THISTLETHWAITE: I want to ask some questions on technological change and branches. It's a fact that the world is changing and technology is changing at a rapid pace. In many industries, computer-based technology and robots are replacing humans. This is the case in the banking industry as well, isn't it—that technological change is seeing a number of staff being made redundant?

Mr Hartzer: There's some of that. We're seeing a lot of shifting, though. We're also seeing new jobs being created as a result of technology. But it's the case that customers are voting with their feet and with their plastic cards, and they're walking into branches less often to make cash deposits and cash withdrawals. So our branch network size and staffing reflects that.

Mr THISTLETHWAITE: Have your staffing levels decreased or increased over the last couple of years?

Mr Hartzer: They have come down a bit.

Mr THISTLETHWAITE: By how much?

Mr Hartzer: It would depend on the time period. It's in our annual report.

Mr King: One or two per cent.

Mr THISTLETHWAITE: Roughly, what does that equate to in terms of the number of people?

Mr King: Less than a thousand or about a thousand.

Mr Hartzer: About a thousand people over the course of the last two years.

Mr Hartzer: But that's across the whole bank; that's not just in the branch network.

Mr THISTLETHWAITE: Many are worried this is going to increase over time. I'm not singling out your bank or the banking industry for this; it's happening in a number of industries. Do you have a strategy to deal with this—particularly, to manage that workforce transition with technological change and to assist employees?

Mr Hartzer: It's a real issue. We absolutely understand the concerns that people have around this across the economy. It's something we think about a lot. We see it with our customers as well as with our own business. There's no question that technology is having an effect on jobs. I think some of the hype about it is a bit overdone, in that I personally think the impact of technology will be more about aspects of jobs than about whole jobs. A lot of the technology is really about replacing the parts of people's jobs they don't really enjoy—you know, keying data in or performing manual tasks. It's freeing people up to spend more time on higher value activity. We recognise it is a real issue for the company and we have been spending a lot more money investing in our people's skills and in the ability to create work that's more flexible and to help people move around and try different things. I think the best investment we and other businesses can make is giving our people more skills so they can adapt as jobs evolve.

Mr THISTLETHWAITE: Does this strategy have a name within your organisation?

Mr Hartzer: The general theme we call the workforce revolution, internally. It's a combination of projects that are looking at the skill set of our people, providing leadership training, skill development, working on culture and a whole range of things. For example, we have changed the way we incentivise our people. Our management program is now called 'Motivate'. Essentially, we've gone from very simplistic scoreboard-based measures of success to one-on-one discussions with people about their own aspirations and where they're going, with a more customised and frequent level of feedback for each employee.

Mr THISTLETHWAITE: Are you communicating and engaging with staff regarding these changes?

Mr Hartzer: We do. We talk about it a lot. Personally, I do roadshows with all staff every six months. I just finished a round of them in August. I spoke in person to probably 10,000 or 15,000 people, and by webcast to the entire company. This is certainly one of the topics we talk about.

Mr THISTLETHWAITE: I want to ask quickly about branch closures. In September you announced the closure of nine branches from your retail network—seven Westpac branches. Is that right?

Mr Hartzer: I don't know the number off the top of my head, but it could be. We certainly are making changes. That goes back to what I said before—people are voting with their feet and voting with their cards, and we're continuing to adjust our network. We also invested over $100 million last year in our branch network and ATM network. My personal view is that branches remain very important. Our frontline people are a really important part of how we deliver the service quality we're trying to deliver and to build relationships with the customers, and that's not changing.

Mr THISTLETHWAITE: So there were nine branch closures and seven of them were in rural and regional areas. Does that concern you, given that many of those rural communities rely a lot more on a local bank branch than, perhaps, city customers do, just because of vicinity? If you've got a branch in a rural community, the next one may be 700 kilometres away, whereas in a city network it may be a couple of kilometres down the road. Isn't that an issue for those communities, and particularly for employees of those organisations in those communities?

Mr Hartzer: We're very conscious of the concerns in regional Australia around branches, and that is why, as part of the changes we have made in our branches, we have done an arrangement with Australia Post that has opened up 3,500 new locations all over the country where people can do their transactions. We have also put videoconferencing capabilities into many of our regional branches—in fact, all branches now have videoconferencing. A customer can go into a regional branch and talk live to a specialist financial planner, a mortgage specialist, whatever it might be. In a sense we're putting more service back into regional areas. We're reflecting the reality of where people are choosing to transact, and where we make adjustments in branch numbers it's typically following changes in the traffic patterns. It's a phenomenon across the country that economic activity is moving more to regional centres.

Mr THISTLETHWAITE: Do you have any further branch closures planned for the next couple of years?

Mr Hartzer: We don't set out with a big long program. We look at each local area and monitor how customers are transacting in that area, and in some cases we consolidate branches and in some cases we open new ones, depending on how the traffic patterns go.

Mr THISTLETHWAITE: My final question relates to the bank levy approved by the parliament. You said in response to this:

There is no 'magic pudding'. The cost of any new tax is ultimately borne by shareholders, borrowers, depositors, and employees.

How will depositors and employees pay for this?

Mr Hartzer: At this point in time, we have made no adjustments to our pricing as a result of the bank tax. The effect of that is that it has come out of shareholders' retained earnings so far.

Mr THISTLETHWAITE: Is that how you continue to intend to pay for this?

Mr Hartzer: I can't talk about what we might or might not do on pricing. I certainly support the statement that I made before, that there is no magic pudding. In the end, the cost gets borne somewhere. Up until now, that cost has been borne by shareholders' equity.

Mr THISTLETHWAITE: That sounds like in the future you are planning to make customers and employees pay for it.

Mr Hartzer: I'm not going to talk about what we might or might not do on pricing. I'm prohibited from doing that. I'm just stating a fact, that extra costs eventually go somewhere.

Ms BANKS: CPS 220 is a prudential risk management mechanism. It doesn’t go to matters of culture; it goes to matters of finance and prudential. However, this committee's recommendation 7 recommended a more robust risk management framework and indeed an independent review of your current systems, Westpac rejected this recommendation and said the efficacy of CPS 220 is good enough and you have regular reviews with APRA and ASIC. But they are not the panacea—certainly APRA is not the panacea to robust risk management, particularly in the areas of misconduct. Do you still reject the recommendation?

Mr Hartzer: Can you just remind me exactly what the recommendation is?

Ms BANKS: It says:

The committee recommends that the major banks be required to engage an independent third party to undertake a full review of their risk management frameworks and make recommendations aimed at improving how the banks identify and respond to misconduct. These reviews should be completed by July 2017 and reported to ASIC, with the major banks to have implemented their recommendations by 31 December 2017.

Your response was, well, we've got CPS 220, we've got ASIC, we've got APRA and we report those to ASIC. In other industries, certainly in the consumer goods industry, in the pharmaceutical industry, they have robust risk management frameworks that specifically go to matters of misconduct. Do you still stick by your rejection of this recommendation?

Mr Hartzer: Our point is that we don't think it's necessary in that there is an extensive amount of review going on of our risk management frameworks, of our culture, of how we deal with misconduct, of how we review staff as part of our incentive and reward schemes. We feel that that's been very thoroughly looked at and reported on, both internally, through our regulators, through reviews that have been done of different aspects of it at the behest of our regulators. Internal auditors, external auditors—we feel pretty heavily reviewed.

Ms BANKS: I understand that, but unless you have the actual structure and mechanism to address specifically misconduct issues, they won't be addressed. In your opening submission you said, 'If we get something wrong, we will put it right.' In my view, you shot yourself in the foot there, because the whole idea and the whole purpose of a robust risk management framework which would overlay something like CPS 220 is that it's preventive. You have this framework, you have regular reviews, you identify the risks and you put in place mitigating factors to stop those things from happening. But that's not in case, is it, with Westpac? We've still got issues of misconduct. We've got sexual harassment, rigged forex trades, 'liar loans'—all these things happening that all go to conduct.

Mr Hartzer: To me, that's conflating a number of different issues. We have a very strong control framework on many aspects of our business. We have clear risk appetite and, wherever we can, we continually upgrade our controls and our detection to try to find and stop things. We make adjustments all the time. These are big, complex businesses, and I don't think any business of our size can ever guarantee that nothing's ever going to go wrong. That's just not realistic.

Ms BANKS: I'm not suggesting that, with respect. The management systems that I'm talking about go to businesses that are as big as, if not bigger than, Westpac. These are systems that are applied globally, from a global perspective. I'm not sure if the bankers who are attending this committee even know what I'm talking about, because, from my point of view, the banks are in a paradigm about risk management because of the protection of APRA and ASIC. You're looking at it purely in the paradigm of prudential regulation, and then you're sitting back, wondering—and obviously finessing your HR processes and all the rest of it, in relation to misconduct, but these things are still happening and they're reported to the media. My question to you is: would you review recommendation 7, as a substantive review, rather than rejecting it outright and saying that CPS 220 is good enough? That would require, necessarily, I suggest, consulting external counsel who would have put these systems in place for other industries which are larger than the banks.

Mr Hartzer: I'm happy to take another look at the recommendation. Perhaps you could give me an example of the sort of thing that you think should be there that isn't. I don't accept that our risk management starts by just listening to what APRA wants. We think about this for ourselves. We think about risk in all sorts of dimensions—people dimensions, conduct, compliance, credit risk, huge amounts of market risk. In a bank, risk is everything we think about, and—

Ms BANKS: Absolutely, and that is the same for, say, the pharmaceutical industry, but all that thought process gets embedded into a risk management framework, with four key areas, one of which is misconduct, or employee conduct, and that goes directly to strategy and leadership of the company.

Mr Hartzer: We have conduct risk as an explicit part of our risk appetite statement and control and review process today.

Ms BANKS: But, in terms of the risk governance framework, it's a circle of risk. It's a circle in terms of governance and enforcement. Let me go to the case of Martyn Wild. There have been a number of allegations. Martyn Wild was a very senior person, a chief investment officer, I understand.

Mr Hartzer: In the BT business, yes.

Ms BANKS: There was a sexual harassment case, and it took six weeks before you did anything about it. I understand the allegations happened in December, and it appears that Westpac waited till everyone got back from Christmas, in mid-January. A report was done externally, by Clayton Utz. I'm not suggesting this, but quite often an independent report is requested to be done to protect professional privilege. I question why a report had to be done externally. I would have thought that Westpac had the resources to do an internal investigation. It's not like you are investigating the HR function. That's what usually happens in that sort of situation. He got a slap on the wrist, a la Tim Worner, even though many of those allegations were proved. You obviously followed your HR practices, but this person had only been in your employ for six months, I think. He has these allegations made against him, he gets a first and final warning, the two people who report to him are required to go back to work, but they necessarily need to take leave—and we can all make assumptions about that—and he's required to make an apology to his staff for his conduct, and yet his manager doesn't sign off on the professionally privileged report.

This goes directly to my point about a risk management framework which would require all those boxes to be crossed in terms of who is accountable. Who is accountable for his conduct? It's him himself but also his manager. You don't have those mechanisms in place. They seem to get lost in the mix and then we read about it in the paper and they just keep coming. That sort of preventative response is, I believe, a significant gap in Westpac's processes.

Mr Hartzer: Thank you for raising that case. If I could make a few comments on that, I wouldn't categorise the situation quite the way you did. Let me be clear: it's a really unfortunate situation. His behaviour was totally unacceptable. As soon as I heard about it, I made sure that it was investigated and that action was taken, and he is no longer with the company—and that's exactly as it should be. I can't speak to the exact timing. What I can say is that, as soon as senior management heard about those allegations, we kicked off an investigation immediately. I remember personally discussing it with the head of HR at the time. It is very clear, and I am on the record internally—I have zero tolerance for disrespect for women and zero tolerance for sexual harassment. When I hear about that stuff, it is not permitted and I treat it extremely seriously.

When I heard about that, we immediately kicked off an investigation. The reason we used an independent person in this case was that we knew it was serious and we have in the past been accused of whitewashing things internally. I didn't want any possibility that we could be accused in this case that we had somehow brushed it under the carpet. That was not what we were going to do. In fact, we also knew, because the nature of the allegations had an element of 'he said, she said' about them, that the chances were, if this ended in his dismissal, that he would quite possibly take legal action against us, and we wanted to make sure that every box was ticked to make sure that we were prepared in that case. From my standpoint, our response is exactly what you would want. I have no tolerance for that. I wish we had picked this up and not hired the guy in the first place, but unfortunately that got through. But we took action immediately.

Ms BANKS: What you have just said and, indeed, the question of timing go directly to my point. An early trigger system in a risk management framework would have meant that Mr Hartzer would have been made aware of this much earlier; indeed, senior management would've been. I'm grateful that you are going to provide on notice a review of the risk management framework system.

Mr Hartzer: I certainly think it's a great suggestion. I would view that the spirit and philosophy of our risk management system is exactly in line with what you're describing. What I take as a good suggestion is that we go back and make sure that we have fully documented what the procedures need to be in cases like this. My view is that it probably is in place, but we'll check that.

Mr King: And, Ms Banks, we offer that we'd be pleased to come and talk to you about your thoughts on the systems, if that's appropriate.

Ms BANKS: It actually goes specifically to recommendation 7, and that's what I ask that you review. Are you prepared to do that?

Mr Hartzer: Yes.

Proceedings suspended from 10:54 to 11:04

CHAIR: We'll reconvene the hearing.

Mr KEOGH: Thank you for coming along, Mr Hartzer and Mr King. I want to talk a bit about fees. I would imagine that even small fees per transaction, or on a customer basis, when added up, are significant revenue for the bank. They might not be as big as interest made on mortgages, but it's a reasonable number so that when you consider removing a fee, it's a board level decision, I presume.

Mr Hartzer: No, it's not a board-level decision; it's a management decision. What I would say is transaction fees are significant but they've been falling pretty rapidly as a feature of the business, over time, as people switch to electronics, and most customers have been on a flat-fee package for many years now. Those excess transaction fees, which we announced yesterday that we're removing, those products, haven't been on sale for many years.

Mr KEOGH: When you look at making a fee change though, whether it's to remove a fee or reduce a fee—and not just looking at those changes you announced yesterday—there's a bit of, 'What is the modelling, what is the effect of this going to be and why are we going to do it?' It doesn't strike me as the sort of decision you make overnight.

Mr Hartzer: Correct.

Mr KEOGH: Can you take me through the decision-making process around removing ATM fees, what was involved in coming to that decision?

Mr Hartzer: Just as a background, as a reminder—I know you understand it but there are a lot of people in the community who don't—it's important to remember that we do not charge, and have not for many years charged, our own customers fees for using our ATMs.

Mr KEOGH: I think everyone gets that, because they use them.

Mr Hartzer: I know, from my own conversations, a lot of people don't quite get that in the way it has been played in the media. The fees that were still out there were fees, for example, for a customer of another bank using a Westpac ATM.

Mr KEOGH: What was the decision-making process to decide Westpac was happy to remove this fee?

Mr Hartzer: It is something that we had looked at over the last couple of years. We are aware of community issues that have been raised and customer feedback in the media and directly on different types of fees. That was one item that had been on our radar as, perhaps, a step we might take. It had been falling as a source of revenue as people shifted more to tap-and-go type payments. Then one of our competitors made a move—and we came to the conclusion, fairly rapidly, that that was the moment to remove them.

Mr KEOGH: There is analysis you need to do, you have considered it, you are aware of customer feedback around this and your competitor makes a move. I want to take you through this time line. On the day the Commonwealth announced it was removing that fee for non-customers of the bank to use an ATM they did that in the morning. By 1.53 ANZ announced it was cutting that fee. By 2.31 you announced you were making the same cut, and NAB cut at 3.12. That strikes me as a little odd, in this regard. Either you managed to assemble the people required to make a decision to cut that fee within several hours or you had already come to the view that the fee should be cut, subject to what your competitors were going to do?

Mr Hartzer: I would describe it in the way that I did, which is that it is something we had looked at, over time, so it wasn't an issue that wasn't familiar to us. We didn't have any plans immediately to do that. When we heard about the action of our competitor, exactly what you described happened, which is a bunch of us got on the phone and very rapidly came to the view that now is the time to cut it, and that's what we did.

Mr KEOGH: That's an interesting point you made there: you came to the view that you would remove that fee but came to the final decision to do it once a competitor removed it.

Mr Hartzer: No, I didn't say that. What I said is that we had considered it as a possibility of something we might do.

Mr KEOGH: Why did you not do it before?

Mr Hartzer: Frankly, because we think it's a legitimate fee. We know that customers are happy it's gone but, in a broader context, there's been a move for many years to try and remove cross-subsidies in the banking system—

Mr KEOGH: Let's look at that process. You said you think it's a legitimate fee, and I know from when I asked you questions about this before and you gave the committee information on notice that the additional marginal cost for you to provide that service to someone who's not a customer of your bank, given you're already providing it to all of your existing customers, is virtually negligible but, in any event, far less than the amount that was being charged to those people who were not your customers. You came to the view that you might look to remove that fee. You obviously did that sometime before the Commonwealth Bank decided to remove the fee. You immediately, upon the Commonwealth Bank deciding to remove the fee, followed suit within hours of the Commonwealth making that announcement. It strikes me that the bank was going to be happy to continue to charge that fee until someone else moved, which inevitably happened.

Mr Hartzer: That's hypothetical. I wouldn't necessarily see it that way.

Mr KEOGH: It seems realistic right now.

Mr Hartzer: That's your view. What I'm saying is we have looked at and continue to look at all of our fees and to balance up economic requirements, customer expectations, community issues and the like, and from time to time we make different decisions. That was absolutely an option that was on the table, but we had not, at that point, made the decision to do that.

Mr KEOGH: To me, that sounds a lot like the answers you gave to this committee when we had the first hearing about a year ago, about how the banks make decisions about whether to raise or reduce interest rates, particularly out of cycle with changes made by the Reserve Bank. You said that you keep all of our interest rates under review constantly and you make decisions as you make them. Interest rates are a big part of your business;

it makes sense you have them under continual review. Continual review of ATM fees is a bit different. But, as you pointed out, you had reviewed them and you had looked into it, but you decided you could effectively get away with continuing to charge a fee that is much more than the marginal cost to providing that service. Given you have given me effectively the same answer for two quite different things, it does look like the small number of players that are in this game, while you might not have all spoken to each other, were all happy to stay there and charge a fee until one of you broke ranks. Then you all had to move because of the competitive pressure you were going to feel. Otherwise, you were happy to charge some quite potentially exorbitant fees to the Australian public while you thought you could get away with it.

Mr Hartzer: I don't accept the premise that the fee is exorbitant.

Mr KEOGH: It is when you look at it compared to the marginal cost of providing the service. It's 400 times the cost of providing the service.

Mr Hartzer: There are very significant costs of managing an ATM fleet that are more than the cost of the individual transaction.

Mr KEOGH: We know that, but you were going to provide that to your customers anyway. That's why the marginal cost was the important question.

Mr Hartzer: The number of transactions around ATMs, as a general statement, has been coming down and, therefore, the costs of sustaining that—the fixed costs aren't changing.

Mr KEOGH: We know all of that, but the point is that the cost is much lower than what you were charging. You were happy to keep charging it and you would have kept charging it until the Commonwealth Bank decided to change. It's not the point about the Commonwealth Bank; the point is that it would appear that all three of you were happy to keep charging that fee until one of the others changed.

Mr Hartzer: Again, I come back to point I was making before about fees. Running a modern banking network is very expensive. There are huge investments in technology and in physical footprint that are exacerbated by the geography of Australia, particularly when it comes to issues like ATM networks. Over the last decade or two, the regulators have encouraged us to move to an environment where user pays. ATMs are an example of that. You can go down a path—it is a very competitive market, and, of course, we pay attention to what our competitors do on things. The general point I am making is that those fees evolved as part of the economics of continuing to support a network. If you keep eliminating all the fees, there is a danger that you start introducing other cross subsidies, which I don't think is ultimately in consumers' interests.

Mr KEOGH: I don't think that really got to the point of my question, Mr Hartzer.

Mr Hartzer: Ask it again; I am happy to have another go.

Mr KEOGH: My point is there seems to be a pattern of behaviour here where the big four banks are happy to maintain rates or fees—maybe the questions Mr Coleman was asking you are another example of this—that are higher than necessary or required to recover cost, but are also happy to take money out of customers' pockets and will continue to do so unless there is some big influence that comes from the outside. In this particular case, it was that the biggest competitor that you have decided to remove the fee and you felt the competitive pressure, even though you considered removing the fee before they had moved, but had decided not to do it at that stage or had not reached a final decision at that stage. That's a pattern of behaviour that is looking very troubling to Australian consumers.

Mr Hartzer: It's a competitive market and we have seen significant changes that different banks make based on their assessment of where the opportunities are. We do, of course, pay attention to what other banks are doing. We also have to manage our own economics. In the end, we make judgements about these things, and on that occasion we made the judgement that the sensible thing was to eliminate the fee.

Mr KEOGH: To look at this another way, I am interested in competitive pressures. One of your largest competitors is running an advertising campaign at the moment that says that, apparently, three out of every four dollars it makes goes to shareholders. What is the statistic for Westpac?

Mr Hartzer: Probably the same.

Mr KEOGH: Broadly the same?

Mr King: It's actually higher—75 per cent.

Mr KEOGH: That's a little higher, isn't it?

Mr Hartzer: Yes. That is referring to the dividend payout ratio. Of our earnings, we pay a certain percentage out in dividends. In our case, our dividend payout ratio for the last half was—

Mr King: It was 78 per cent.

Mr Hartzer: There you go—78 per cent. So that is what that is saying.

Mr King: The vast bulk of our shareholders are domestic people. Super funds, insurance companies and individual investors are 80 per cent of our shareholder base. So that money goes back into the economy.

Mr KEOGH: Going back to mortgages, a lot was discussed previously in this committee about the proportion of the mortgage market that is held by the big four banks. Just remind me: what proportion is that for yourselves?

Mr Hartzer: We're at about 23 per cent, from memory.

Mr KEOGH: What does that figure go up to when you consider nonbank lenders that you may be financing?

Mr Hartzer: It wouldn't have a significant impact on that.

Mr King: That's right.

Mr Hartzer: Through our institutional bank, we do warehouse lending before, which means short-term lending that they securitise.

Mr King: It's about $10 billion of warehouse lending.

Mr KEOGH: So it's not a big function of what you do as a bank?

Mr King: It's $410 billion of direct mortgages and $10 billion of wholesale funding.

Mr KEOGH: So it takes it up to $420 billion effectively that you are sitting behind, whether it is direct or through an intermediary.

Mr Hartzer: But that's a short-term loan.

Mr KEOGH: I guess they're structured in a different way.

Mr Hartzer: We're a sort of pass-through, if you like. It's a short-term financing vehicle before the loans are fundamentally financed by the capital markets. The point is that it doesn't change our market share.

Mr KEOGH: To what extent are you in those capital markets from an institutional point of view?

Mr Hartzer: We wouldn't be buying a lot of them.

Mr KEOGH: But you're buying some?

Mr Hartzer: I'd have to take that on notice—but not a lot.

Mr KEOGH: Can you? If you can take that on notice—

Mr King: Where we buy securities it is predominantly government and semi-government securities to meet the liquidity requirements—the LCR and NSFR. There's a little bit of activity that we do to support liquidity in the RMBS market.

Mr Hartzer: What I am getting, though, is that the direction of your question seems to be about whether we are financing the nonbank market significantly. It's not a significant part of our business.

Mr KEOGH: If you could give us the detail on that on notice, that would be useful. It would be interesting to get a sense of the total exposure and the extent to which you and your competitors are also sitting behind what looks like the competition in the market. That then takes me to another question, which is about Uno—which I thought was a card game but apparently it is a mortgage start-up. There has been some criticism about this organisation, which Westpac holds over 90 per cent of the shares in, and whether it should be made apparent to people who are coming to that organisation for mortgages that, effectively, they are dealing with a subsidiary of yourself?

Mr Hartzer: Uno is a fin-tech start-up that we funded. It's a pretty exciting proposition, and I encourage customers to have a look at it. Essentially, it's a modern mortgage broker. It's all online. It offers pretty much every bank's mortgages, and there is no bias to any Westpac brand mortgages in that.

Mr KEOGH: Which is fine, and that would be promoted. But should it also be made clear that you own it?

Mr Hartzer: We own a significant portion of it.

Mr KEOGH: I think everyone would regard 90-odd per cent as you own it. You are clearly the controlling entity.

Mr King: I believe it is disclosed on the website.

Mr KEOGH: Is that part of what is disclosed to customers when they are taking a product from them?

Mr King: We'll have to take it on notice, but I believe it is disclosed on the website.

Mr Hartzer: It is no different than Aussie home loans being owned by the Commonwealth Bank. It is a mortgage broker but it's a modern mortgage broker for the digital age.

Mr KEOGH: And your view is that it is not favouring any of your products over—

Mr Hartzer: No.

Mr KEOGH: I know you've had a few run-ins with Apple about contactless payment systems. What is your view about how Apple is operating in the financial markets? Is the operation of Apple effectively stifling innovation and competition in Australia?

Mr Hartzer: We were part of an action, as you are aware, around Apple Pay. We have no problem with Apple Pay existing in the market and being there. We're participating in Android Pay and Samsung Pay and we are a banker to PayPal. We support all these things. The issue that we had was that we felt it was inappropriate that the only way you could do a card transaction using Apple Pay was through the Apple Wallet on the phone. Our view was: we had no problem with that existing but we felt that a Westpac app or another bank's app on the phone should also be able to access that view. They are controlling their walled garden, if you like, and stopping us from doing that. We think that's unfortunate for consumers and stifles innovation.

Mr HOGAN: Thank you, gentlemen for appearing today. I want to follow up on the ATM fees that were just raised earlier. It is great for customers that the ATM fee, if you're with a foreign bank, has been taken away—and can I just say that my wife often comments, when I take money out of a another bank, that we have been charged a fee. I am obviously lazier than her when I look for an ATM. As a regional MP, I have a concern with this which I will take you through. As you move away from capital cities to more rural and remote communities, ATMs become less viable. What are your plans for ATMs in regional and remote communities? Will you commit to not withdrawing ATMs from regional and remote communities? I ask you to comment on the suggestion that it makes economic sense to reduce your networks in the sense that, as there is no fee for your customers, is this going to generate a race to see who can withdraw ATMs first?

Mr Hartzer: First of all, we recognise that access to ATMs is very important in regional areas, and we are committed to making sure that we support our customers in those areas to be able to access their cash. You are right in that the economics are increasingly challenging for maintaining ATM networks in regional areas. The elimination of a potential fee to help defray some of the costs is a contributor for some of the ATMs. I don't know what the right answer is, but I do know that, just as we have worked with Australia Post on over-the-counter transactions to increase services in regional areas, as an industry, a number of banks have been discussing whether there should be an opportunity to share networks more broadly in order to cover and share the fixed costs of doing that. That was one of the conversations that was underway earlier in the year—and I think it's been reported in the press. It hasn't gone anywhere yet, but I certainly wouldn't rule out that that might be a possible solution.

Mr HOGAN: I applaud that. If there are two ATMs in a small community, they can lose one but, if they lose both, that is going to cause great distress. If that discussion is going on with the banks, that's wonderful. The next issue: most people would say APRA regulation—besides maybe you—with capital requirements has created an uneven playing field with you and the next second-tier banks. Also the risk weights for housing have become particularly skewed in the sense that housing has a lower LVR. I've got a few questions on this. Are you targeting low-LVR housing assets at the expense of loans to more productive areas such as small business? What has been the change in your asset mix since gaining advanced accreditation? My understanding is that you have increased your asset allocation to housing mortgages. How do you think taking money from the small business lending area to the housing area assists the broader economy? How do you look at the impact on your remuneration when you are making decisions on capital allocation?

Mr Hartzer: I might talk about the general philosophy and some of the premises of your question, and Pete can perhaps talk about the risk weightings and how that plays out. Firstly, there is not in our mind a trade-off between lending for housing and lending for small business. We are supercommitted to supporting small business. It is one of our most—

Mr HOGAN: I ask: why has your lending to housing, in relative terms to small business, become completely skewed? Why has lending to housing taken over and dominated your lending relative to small business?

Mr Hartzer: Because the demand for housing has been rising high. We're in an economy where there's not enough house construction relative to the demand for new housing dwellings. We haven't been building enough housing and, at the same time as interest rates have been falling, the combination of that has pushed up the price of housing and therefore pushed up the demand for housing lending to meet that price. I think the important point here is: we do not constrain our growth in small business lending; we do not see it as constrained by capital. The only constraint is demand and risk quality. If we look at our SME—our small- and medium-sized enterprise—lending over the last 10 years, it's doubled. We went from about $40 billion to about $80 billion today in the last 10 years. We want to grow that business, and there is no constraint on that growth.

Mr HOGAN: So you were saying this has been grass roots led—that you have not made a decision within your executive team or at board level and said, 'You know what? We're going to wait and put more money into housing because of X, Y and Z'? You are saying that that decision has never been a conscious decision—that this has simply been demand driven?

Mr Hartzer: Correct. And if you could help us grow small-business lending more, we would love it. We would like to see more demand and more businesses looking to invest. We would very much like to see that.

Mr HOGAN: I just want to follow on from some questions that I asked last time. It was after the Sedgwick review into banks. We talked very much re the sales versus the service culture. I think you alluded to—I forget who asked the question—your divesting of some of your BT wealth creation arms. Obviously, you see a great conflict there. I think you at least admitted it—some other CEOs didn't—and said historically there had been a focus on sales and not service. You have now said that you have weighted things different and that your frontline staff do have a service component that has measured customer service. You have taken the incentive payments away from frontline tellers who, really, don't do that much selling. But, obviously, your financial planners, the ones you have—your loan staff and managers—still have a very heavy proportion of their bonus or their remuneration based on sales. Do you think you have done enough? Obviously, you are going to say 'yes'. But, obviously, there's going to be a lot of concern out there given you still have heavy financial incentives for those staff to sell. Do you think you have gone far enough? Or are we going to be talking about the same things in five years time?

Mr Hartzer: I feel comfortable with where we are, although we will continue to look at it. And this area continues to evolve. Our philosophy at Westpac—I can't speak for the others—is: we are trying to grow our business by growing the number of customers who entrust their banking and their life savings and investments with us. To do that, we need to deal with them as if we're going to bank them forever. That means that the decisions need to be free of conflicts of interest, that our people are focused very much on the quality of service they provide and that the advice and recommendations that they give them are in the best long-term interests of those customers. If you don't do that, that goes wrong.

If I can address part of your question, with respect to our financial planners they are not paid commissions based on what they sell. They are paid a flat fee for providing advice, and it's not biased by what they do. From a profitability point of our business, our goal is more and more people consolidating more and more of their business—their financial assets—onto our platforms for which we earn a small administration fee. And that fee will probably come down over time. But if more and more people find it convenient and it good quality advice to consolidate their business with us, then our business will grow. We think that is a business strategy that is totally aligned with the interests of customers.

Mr HOGAN: I take that. I certainly understand that, with your performance measurement, you've moved away from solely remuneration and sales. But I still see that with the mix that you have there were at least some service-orientated things that may still be an issue. I want touch on an issue that I have read about in the last day or so. You have changed fees on something. You have a $5 cap on transaction accounts or transaction costs for certain accounts.

Mr Hartzer: Yes. Historically, banks' product sets have evolved over many years. A number of years ago we changed our transaction accounts so that the only products you could buy were products that charged a monthly maintenance fee of $5, and you could do as many transactions as you wanted for that and there were no extra fees. So a $5 flat fee—that's it. However, we had customers who had taken out products previously—some going back 20 years—where the structure of the product was they paid a fee and they got a certain number of transactions for free and then, above that, they would pay a transaction fee for excess transactions. As part of the review that I talked about—the getting it right, putting it right—we've been going through all these historical products. We found that there were some customers who were still in those structures. We took the decision, which we announced yesterday, to eliminate all the excess transaction fees and reduce the monthly fee on those types of accounts back to $5. So all those remaining customers who were in products that we don't sell anymore but they still had have been reduced.

Mr HOGAN: Are there customers who were potentially paying nothing in really old accounts, or paying less than $5, that are now going to pay $5?

Mr Hartzer: No—well, there are some accounts where you pay nothing if your balance is above a certain amount. But—

Mr HOGAN: Will they now pay $5?

Mr Hartzer: No, we haven't changed that.

Mr HOGAN: So there is no customer that is worse off? This is obviously—

Mr Hartzer: No customer is worse off: 1.3 million customers are better off and no customers are worse off.

Mr HOGAN: Okay, great. Thank you.

Ms MADELEINE KING: Thanks for coming in today. I just want to go over a few things others have said and then get back to my original questions. Earlier, Ms Banks, the member for Chisholm, raised recommendation 7 of the first report—the majority report, I must add—of this committee. It wasn't agreed to by everyone here. This is about the review of the risk management framework. You agreed to have a look at the recommendation again, but I would have thought that there's not much motivation to do that, is there, given that the government itself didn't agree to recommendation 7?

Mr Hartzer: Well, we're happy to look at it. As I said, there's a couple of suggestions there where perhaps we can clarify the way we run our—it's in our interests to have the best control framework that we can have. We're not objecting to scrutiny. Our response to that is a pragmatic one: our view is that if people come and look at this in detail, and our regulators are very skilled at this, then there's no need for an extra review. That's really it.

Ms MADELEINE KING: Sure, thanks. And just while we're on risk: I think you said right at the start of your evidence here today—when we were talking about the intelligent deposit machines and those automatic deposits—that Westpac's risk assessment has brought to you the conclusion that $4,000 on a deposit limit is about right, whereas CBA has a limit of $20,000. Presumably, they make theirs on risk assessments, and I know you can't speak for another bank, but do you have any insight as to why Westpac's risk assessment varies so wildly from the Commonwealth Bank on this?

Mr Hartzer: You would have to ask them about where they were, and where they are—

Ms MADELEINE KING: I will.

Mr Hartzer: We did experiment with some of those machines. We have since removed them all. We did it in a different way. I think we had seven of those machines that we experimented with. We put them all inside our branches and gave extra training to our people, specifically to be on the look out for potential money laundering and so on. For operational and risk reasons, we came to the conclusion that we didn't want to use those machines and that our $4,000 limit on the existing smart machines was appropriate.

Ms MADELEINE KING: Okay. I will just go back to the questions from my colleague the member for Burt on the ATM fees. You announced on the 24 September, as did everyone else, that you would stop charging the $2 or $2.50 fee. CBA went first on that announcement, and my understanding is that they stopped charging that fee almost immediately but that Westpac and the other banks didn't bring that cancellation fee in until 5 October. Is there any reason for that? Why one—

Mr Hartzer: That would just be technical and operational. They'd obviously been working on it for a long time. Bank systems are complex; we have multiple brands and it takes time to do these things. If you put a technical change in you've got to test it. We did it as fast as we could.

Ms MADELEINE KING: Yes, on the back of an announcement. So, you've been talking about it before, as you said, but then after—

Mr Hartzer: It was on our radar as an option.

Ms MADELEINE KING: I understand.

Mr Hartzer: We're very conscious of the reputational issues. We've been looking at lots of possible changes and that was one possible change. They announced it and we went, 'Okay, we're going to do that one; now we just figure out how we do it.'

Ms MADELEINE KING: Right, so they were a bit more ready for it and they were able to cancel it straightaway. They had it at the front of their minds for a while and so it has just taken you and the others two more weeks to make that come through because of technical issues.

Mr Hartzer: Technical and operational. We have to communicate with staff and we have to explain what it means. It just takes time.

Ms MADELEINE KING: Right, okay. I just want to go back to the contactless payment systems that the chair was asking you about earlier. I don't think I was quite clear on some of the operational parts of that. What I want to understand—and I think what we would all like to understand—is who chooses whether that underlying payment system of EFTPOS or Mastercard or Visa is applied at the contactless point-of-sale machine?

Mr Hartzer: Well, essentially, today the customer chooses, depending on which card they pull out of their wallet.

Ms MADELEINE KING: So the machines sit at my grocery store or wherever I am. I can pull out my Mastercard or I can pull out my EFTPOS card, and that's where the choice is made?

Mr Hartzer: Yes.

Ms MADELEINE KING: And both can be contactless?

Mr Hartzer: Yes. Or, if you have your cheque or savings account linked to your Visa or Mastercard credit card, you can insert the card and effectively override the contactless by choosing cheque or savings.

Ms MADELEINE KING: So the choice is not with the merchant that is using that system. It's not with the grocery store or the retailer. It's not with the bank. It's with me as a customer in that shop as to what card I pull out of my purse.

Mr Hartzer: Essentially, yes. And there's no difference in cost to the consumer. The cost to the consumer is exactly the same, which is zero.

Ms MADELEINE KING: It's the same for me buying the product, but it's not the same for the merchant selling the product. It's a bit higher for Visa and Mastercard than for EFTPOS.

Mr Hartzer: That's correct. The argument for that is that Visa and Mastercard bring extra benefits to the merchant and they pay for that in the interchange.

Ms MADELEINE KING: I wouldn't disagree. There's no presumption made by any of the banks as to what a customer wants. It's all up to the customer when and how they choose to pay.

Mr Hartzer: Yes.

Ms MADELEINE KING: When the payments happen, do Westpac and the other banks receive a higher fee from a customer—a purchaser like me—using Mastercard or Visa?

Mr Hartzer: Yes. If you're one of our customers and you go and make a purchase in a merchant, depending on which card you have, a different interchange will come back to us. The reason for that is that there are typically different benefits associated with using Visa or Mastercard versus an EFTPOS card.

Ms MADELEINE KING: Like points.

Mr Hartzer: Points, interest-free period, other reward benefits, international access, chargeback rights. When you do an EFTPOS transaction, the money's straight out of your account. If you do a credit transaction, you've got dispute rights and the like.

Ms MADELEINE KING: I do understand it's a purchaser choice. But the bank gets a bit of an extra fee and, of course, if you go into debt on your credit card, the banks are going to be better off because there's an interest payment, understandably.

Mr Hartzer: Assuming you pay it back. There's an important point that I should make in this: banks do not make profit—I don't know if we make any profit—out of interchange fees these days. The interchange rate has been brought down very, very low to essentially be a cost recovery mechanism. The convention is that, in terms of the benefits provided for loyalty points and the like for most people, that absorbs pretty much the entire interchange fee. I wouldn't want people to come to the conclusion that there's this kind of secret profit pool in interchange. The interchange is a cost recovery mechanism for the most part.

Ms MADELEINE KING: That idea is out there.

Mr Hartzer: That's because historically interchange was a lot higher. But it has been brought down dramatically. Australia has one of the lowest interchange rates in the world.

Ms MADELEINE KING: I was saying that those ideas that you might be making more fees than you need to are out there because of the reputation issues that are permeating through the community.

Mr Hartzer: That's why it's nice to have the opportunity to clarify that.

Ms MADELEINE KING: I'm grateful for it. I've got articles in front of me from financial journalists that seem to indicate otherwise.

Mr Hartzer: If that's the article I'm thinking of, it also misses the fact that the interchange fell again in July. That isn't taken into account in that.

Ms MADELEINE KING: I've got a query about your appearances before this committee, and specifically this inquiry. How many hours do you spend preparing to come here every six months to talk to us?

Mr Hartzer: A lot.

Ms MADELEINE KING: At a guess?

Mr Hartzer: A lot.

Ms MADELEINE KING: Like a week's worth, or a month?

Mr Hartzer: Collectively, for me personally and for Peter, it's probably three or four or five days of our time. But there are a lot of other people who help bring the information together. It's a significant impost, but we're happy to do it.

Ms MADELEINE KING: It's similar for us being on the committee—there's preparation and reading and compilation. I refer back to what the member for Chisholm said earlier: there are a whole lot of newspaper articles. Basically, that almost informs what we talk about here. To me, that doesn't seem like the best use of everybody's time, that we just come here and do this inquiry. The first inquiry made recommendations, the second one made those recommendations again—a little more but not much—and we're likely to do much the same again. And you'll go away and there'll get another bunch of newspaper articles in six months time. It seems to be an endless loop dealing with a banking culture and a perception in the community. I don't want to linger on this point, but do you think it's helpful or not?

Mr Hartzer: We're happy to appear.

Ms MADELEINE KING: Right. Do you think there's a better way? You know I'm an advocate for a royal commission into the banks. I think that doing it in a more thorough and a better resourced manner—

Mr KEOGH: This might be cheaper.

Ms MADELEINE KING: I think we have to address the problem here and address it more fulsomely with the resources that are required to do it. Otherwise you're going to have to keep coming back for years.

Mr Hartzer: My view on that is that the resources required for a royal commission would be many multiples of what's required for this. Our view is we're totally transparent about the issues that have been raised. We're happy to come here and answer questions you've got. We're happy to take issues on notice. We're an open book. I think we have demonstrated through our actions that the legitimate issues that have been raised by the community are being taken seriously and are being addressed. Frankly, if you think a couple of weeks a year of my time preparing for this takes up a lot my life, I can't imagine what a royal commission would do.

Ms MADELEINE KING: I've no doubt a royal commission will take up a lot of time for a lot of people.

Mr Hartzer: The point is we're getting on and taking action now to implement the reforms that we need to do. I don't think a royal commission would change that.

Ms MADELEINE KING: But do you see my point that every six months we're coming back and going through the same kinds of things. We still have this accumulation of newspaper articles, and I wonder if this is the new normal.

Mr Hartzer: There's certainly higher scrutiny on banks and we accept that. The point is we're getting on and making changes wherever we see an opportunity to fix something.

Ms MADELEINE KING: I thank you for coming here and for the work you do. I would like to see a more rigorous look into the culture of banks so that we might get past this problem of the poor reputation that has now been going on for some time, for years, and that it can end, so that Australian consumers and investors don't have to see our banks be called into question almost daily in the press. I will leave it there. Thank you very much.

Mr BUCHHOLZ: I think that is a wonderful segue into the effectiveness of this committee. My line of questioning during this inquiry has been around credit card interest rates, and I want to congratulate your bank for the nimbleness that it shown in reacting to the committee's concerns about low-rate credit cards. Congratulations on the launch of the Westpac Lite Card. It goes directly to the issues the committee raised around household costs. Not every consumer in your book has an overdraft, not every consumer has a mortgage and not every consumer has a business loan but most of them have a credit card. I think the credit card facility was launched in June. Do you have any data as to how it's been received by your clients?

Mr Hartzer: It's been well received as an option and an initiative by a number of clients. We've already had several thousand people take out the card, but the promotion of it is still in the early stages.

Mr BUCHHOLZ: In earlier hearings you said that you tailor things. If a client is not in the right product, you try to put them in the right product. Is there an intention to migrate existing clients to that, or is the early take-up from new clients migrating away from other banks, where the interest rates may start with a 20 rather than single digits?

Mr Hartzer: It's a good question. It's a bit early to say where the flow of new customers is coming from, but I certainly agree with the point that we think that one of the ways that we can do the right long-term thing for our customers—and this has been a learning over the last couple of years—is the reasonable expectation that banks, using our data, look at how customers are using products and, on a relatively frequent basis, where we see a customer who isn't in the right product, seemingly, from the way they're using it, make suggestions to them that they might want to consider a different product and make it easy for them to switch among those products over time. I see no reason why Westpac Lite wouldn't be part of that discussion for some customers.

Mr BUCHHOLZ: Attached to Westpac Lite, what's the SmartPlan?

Mr Hartzer: The SmartPlan is another example of something we've developed which I'm really proud of. As we've discussed before, a credit card is designed as a revolving facility. It's not meant to be a long-term interest rate that you pay to pay off a big purchase over a long period of time, but, of course, we do know that some customers in effect have used it like that. So what SmartPlan does is say that you can allocate a particular purchase or a particular amount and put it onto an instalment line that then is paid out of your limit on a regular basis at a lower rate of interest over time. Essentially, it combines an instalment loan with a credit card, and we think that's a more responsible way for customers to finance larger purchases.

Mr BUCHHOLZ: I want to pick up on some of the issues raised before, particularly by Mr Keogh. When you sign up to Westpac Lite, do you have the option of Visa, Mastercard or EFTPOS?

Mr Hartzer: No, Westpac Lite is by definition a credit card, so it would run on the scheme rules.

Mr BUCHHOLZ: Visa or Mastercard. Does it also have a debit facility?

Mr Hartzer: No, but a customer who separately has a cheque account and links it to that card would be able to use that same piece of plastic to access their cheque or savings account.

Mr BUCHHOLZ: I think the product hits a certain spot in the market, and I'm going to close by complimenting the nimbleness that your bank showed. I can only assume that you wouldn't be making these decisions on the prospect of a royal commission. My colleagues will scoff, but I do want to congratulate you. My consumers in my electorate are not that well off and any saving that they can get passed on through a bank to them will be appreciated. I will do my bit in getting out in front of the shock jocks around Australia to let them know that I think you've done the right thing in that space. Thank you.

Mr Hartzer: Thank you.

Mr BANDT: Mr Hartzer, last time we were here we had a discussion about Westpac's commitment to two degrees with respect to climate change and also about coalmining. Since that time, Westpac's issued a comprehensive climate statement. I want to draw your attention in particular to that part of it that deals with the energy system, including coalmining, and sets out the new rules that Westpac's going to apply for future lending. Could you please perhaps start with a bit of background and give the committee an explanation as to your thinking behind coming up with that decision and that new set of rules.

Mr Hartzer: Sure. The climate change policy that we launched in late April or early May was something we'd been working on for about 18 months prior to the announcement. We regularly update our climate statement every three years. One of the main issues that we've been grappling with—and I think the community at large has been considering—is: how do we move toward a two-degree economy, by which we mean moving to zero net emissions by 2050? In our mind, we're very conscious of our responsibility in supporting economic growth in the economy as well and that there is a reality of life at the moment that there's a need for base-load power to support the economy and keep costs down for businesses. But we need to start that transition. So the question we asked ourselves was: how best to make positive steps toward the transition so that we put ourselves on a path toward two degrees without knee-jerking too far one way or the other?

The conclusion we came to was that we would limit the finance of coalmining to the highest quality of coal, where the calorific value of the coal being produced was in the top 15 per cent and, similarly, we would not support the development of new coal basins but we would—subject to the quality of the coal being okay—support expansion in existing basins. Behind that thinking was, if you're going to move to transition, given the long life a new basin would have, we weren't convinced that would be environmental or economically sustainable, but it gave us some ability to support the current position while we shifted towards renewables. At the same time, we announced a commitment to further increase our investment in renewable energy sources, dramatically, over the next few years.

That was our attempt, recognising it's a complex issue, that we need to support the existing economy and take steps to shift to a more renewable future—to try to strike that balance and take a constructive and thoughtful step in that direction.

Mr BANDT: I appreciate that statement. Obviously, a lot of this came in the context of, amongst other contexts, a public debate about the Adani Carmichael coalmine. I understand you've been at pains to say publicly and to the committee that you're not going to comment on individual customers and what decisions you might make about individual customers. But it's relevant, in the context, in that you've made a decision that's drawing a line in the sand with respect to new coalmines, even where they might be with existing customers, as I understand it. So this will affect the decisions that you make, in the future, about what projects you might or might not support.

I want to better understand those rules and how you're going to apply this, particularly in a context where the policy says that you're including, within this thermal coal sector, not just mines but terminals, coal-handling terminals themselves, you say. In a general sense, if a coal-handling terminal is going to exist predominantly to support the creation of a new coalmine that you otherwise wouldn't fund, will you then fund or support that coal-handling terminal?

Mr Hartzer: The general approach is as you described, which is that we are focused on existing basins and existing resources that meet the highest quality of coal and that we include, in our thinking around that, the infrastructure related to that. Without commenting on any particular situation, if, in the end, you had a piece of infrastructure that only related to financing of a new basin, that would most likely not meet our criteria.

Mr BANDT: Effectively, if someone came to you and said, 'We want you to help us support a new coal basin,' you would apply a certain set of rules, the rules that you set out here. And if someone came to you and said, 'We've got an existing terminal but we want you to help finance it or refinance it so that we can go and construct a new coal basin and make it viable,' you'd apply the same set of rules to that terminal as you'd apply to the coal basin.

Mr Hartzer: I suppose it would depend on the situation, but the general principle of what you're describing is correct.

Mr BANDT: A couple of other banks have said to us that they're starting to look at, in a bit more-fine grain detail, how climate risks might affect lending practices in the household sector, and, in particular, whether or not properties on the coast or in low-lying areas might now be worth less because they're subject to flooding from sea level rises or riverine flooding and that, in the future, they might require a higher or lower LVR or that they don't lend at all. Has Westpac started looking at that?

Mr Hartzer: It's certainly been a topic that we've begun to consider. As you can imagine, it's an easy thing to talk about at a high level. When you start to get into specific situations it gets a lot more complex. But it's definitely an issue that's on our radar.

Mr King: We also require that people have insurance for their houses. So, at the moment, we're seeing people being able to get insurance. That would be a first sign—if something's moving in the insurance market, there could be an interplay between insurance and banking.

Mr BANDT: Have you noticed any changes on that front yet in the insurance market? Do you ultimately see this as an insurance issue rather than a banking issue?

Mr King: It's both.

Mr BANDT: Might you be in a position, similar to some of the other banks, where you say, 'We're not going to write you that mortgage, because there's a chance the value of your house could collapse if sea level rises are as predicted'?

Mr King: It's not a major consideration at the moment, but we think about it. Whether it's in the corporate book, the business book or the consumer book, we think about climate lending.

Mr BANDT: Coming back to power and power generation in particular, I notice you've set a new target for the profile of your generation portfolio. You want to get it down to 0.3 tonnes per megawatt hour, and it's currently at 0.88 compared with a national average within the electricity network of 0.9. What's going to be required for Westpac to do that? It's a substantial drop and a good drop. How are you going to make it happen? That 0.3 might be less than some gas fired power, for example, that's currently out there.

Mr Hartzer: We're continuing to work on that subject. Our view on those things is we found it effective over time to set aspirational goals for ourselves and work back to figure out how to do it. In that example, that's something we continue to talk about with our providers, our broad range of suppliers and our customers involved in the sector. We continue to look for places where we can be innovative in this.

Mr BANDT: It's obviously a goal, though, that you've set, informed by a fair amount of research. It's not a goal that one would come to lightly, and it requires a significant change. Do you have a sense of what that is going to mean in terms of the proportion of your exposure to power generation? That might mean you end up having to fund 70 per cent renewables, 20 per cent gas and no coal, or 10 per cent coal. What is it?

Mr King: The big uses of power in the company are property, lights and the data centres. How we improve our use of electricity will play a big part in it, and then where we get it from. We'll look at the best ways in the mix to do that. We haven't set a percentage target for exactly where you get it from. You have to work both ends.

Mr Hartzer: Suggestions are welcome, though.

Mr EVANS: I'm going to focus my questions today on small business lending, specifically non-monetary default clauses and the unfair contracts legislation, but I might ask one follow-up to those questions that Ms King and the chair asked in relation to bank cards that both have EFTPOS and Visa or Mastercard capabilities. If the customer doesn't insert their card and manually choose an option, there must be a default rule, a default setting, as to which one of those systems wins out. Who sets that default setting?

Mr Hartzer: It's very simple. If it's a Visa or Mastercard branded card, it goes to their systems.

Mr King: It's what the card is.

Mr EVANS: And you can confirm, can't you, that there is a cost difference for a transaction of a consistent amount, depending on whether it goes down the EFTPOS road or the Visa or Mastercard road?

Mr Hartzer: Yes.

Mr King: The RBA has published a lot of data on that.

Mr Hartzer: I will use this opportunity to emphasise again: the rate is set by the RBA.

Mr EVANS: Understood. On unfair contracts, I noted in your opening remarks you mentioned that later this year you'll be launching a new small business finance agreement. I think you said shorter, plain English, electronic. That's great, and I congratulate for you for that. That's for new loans for small businesses. Obviously there are a significant number of existing small business loans out there to consider as well. I think it was in late August that Westpac and the other banks reached an agreement with ASIC and the Small Business and Family Enterprise Ombudsman to remove certain unfair provisions from your small business lending contracts. Can you in passing confirm that that's for that existing pool of small business loans and, maybe as part of the broader answer, do you want to tell us a little more about exactly what it is that you committed to as part of that agreement?

Mr Hartzer: Sure. I think we should separate this around the size of loans and, just as a backdrop, we are happy that these issues have been raised. It's been a useful exercise to look at them and go back and look at our contracts to make sure that they're working well for the customers and the bank. In any contractual issues around loan documentation, there is a risk and a reward, or a risk and cost trade-off so that, if you have more protections, the cost of credit can be lower; if you have fewer protections, there's potentially a cost implication. So we've been keen to make sure that we get the balance right while preserving the protections that matter.

When we looked at it, one of the—sorry, one more background statement—challenges with small business is that the term 'small business' covers a vast array of companies of different sophistication and size. There is no standard common definition that everybody uses for the same purpose. There is a reason for that which is, depending on what your question is, that business is grouped together in different ways, whether it's their borrowing requirements, their turnover, the number of staff they have, the sophistication of their corporate structures—there's quite a lot of variation. What we did was, when this issue was raised, go back and look at, in the first instance, small business customers who had loans under a million dollars. What we found historically was—for Westpac, anyway—we had never, to our investigation, found an example where we had relied on a non-monetary default clause in a situation. They were there for historical reasons, but we'd never used it. Given that we'd never used it, we said, 'We're happy to let those go.' What we are doing on those loans is writing to all of our customers—I think by the end of the year it'll be complete—formalising a waiver that says: 'We will not apply these clauses.' That will cover all existing customers of loans under $1 million and, when we bring in the new loan contract, that will be clear for new loans.

If I then think about customers between $1 million and $3 million in lending—the second tier—for the most part, the vast majority of the time, again, we don't even need those clauses. Again, we have almost no examples of where they've ever been used and, in fact, we can't find any examples since the GFC where, for those customers, we've used a non-monetary default clause exclusively. It's always been a monetary issue with those customers.

Mr EVANS: Other than non-monetary default clauses, were there any other major areas of provisions or groupings of clauses that you reached agreement with the ombudsman to remove?

Mr Hartzer: I'd have to take that on notice. Where the debate has continued to be is around: where do you draw the line on the exclusion of these clauses? The backdrop here is we have no desire and it is not in our interests to push people out of their business. When customers get into trouble, we want to help them get back on their feet. That is actually in our commercial interests as well as in the customer's interest. However, there are certain businesses and certain kinds of businesses where we need protections—if the business is dependent on a certain business licence and they lose that licence, then we need an ability to take some steps to intervene; where there are property developers and you're building a property and there are no payments until the property is completed, if the development falls over, you need an ability to deal with that. There is a series of examples like that which are all, when you talk through them, perfectly reasonable where they apply.

What we have found from our own analysis is: 99 per cent of what people consider to be small businesses have loans under $3 million. If you deal up to $3 million, you have essentially, in our view, dealt with the issue,. On average, when you get above $3 million, you start having more and more complexity of business than corporate structures and the like where the needs of what you have to have as protections from a risk point of view become more significant. So we're trying to have a reasonable and fact based debate. We accept the principle of where we are trying to get to, which is that customers feel the contracts are fair and that banks behave reasonably when a customer is in trouble. There are some details that need to be worked through.

Mr EVANS: You actually answered a lot of my follow-up questions, so I promise my fellow committee members that we did actually save time. Just to confirm you're on track for end of this year for under $1 million—

Mr Hartzer: Correct.

Mr EVANS: And you are committed to under $3 million by some stage next year.

Mr Hartzer: Early next year.

Mr EVANS: And you still broadly disagreeing with the ombudsman's recommendation that that be extended to $5 million, for the reasons you just outlined?

Mr Hartzer: We disagree with a simplistic definition of $3 million. We are comfortable to go up to $5 million with noted exceptions where we believe they are appropriate.

Mr EVANS: In relation to the new code of banking practice, that is to be finalised by the end of this year, is it?

Mr Hartzer: Yes.

Mr EVANS: Can you tell us the main ways that the revised code will deal with small business lending practices?

Mr Hartzer: I'd have to take the details of that on notice, but the general point is to make it simpler, plain English and provide more protections for customers.

Mr EVANS: Happy to ask you that on notice.

Mr CRAIG KELLY: Earlier this year, you had your 200th birthday celebrations and there were pictures in the paper of those celebrations being interrupted by anti-Adani coalmining protesters.

Mr Hartzer: Yes.

Mr CRAIG KELLY: At that particular time had Adani actually approached you for a loan for their coalmining—

Mr Hartzer: No.

Mr CRAIG KELLY: Had they had any preliminary discussions about getting a loan from you? Was there any informal application?

Mr Hartzer: I don't want to go into the details of our client relationships, but we said on record many times that we had not been approached to fund that mine.

Mr CRAIG KELLY: Did you think that it was a surprise that such a protest occurred asking you to not fund a project you had never been asked to fund?

Mr Hartzer: We made the point at the time that we thought that was slightly odd.

Mr CRAIG KELLY: Several weeks after that you changed your climate investment policies to increase the threshold of the calorific value of what coal should be before you would loan money for a development. Is that correct?

Mr Hartzer: Yes.

Mr CRAIG KELLY: Is it 6,300 kilo calories per—

Mr Hartzer: I forget the exact number, but it is set on the basis of the top 15 per cent of coal production.

Mr CRAIG KELLY: Is that coal production worldwide?

Mr Hartzer: I believe so.

Mr CRAIG KELLY: Of Australia's $19 billion worth of coal that we exported last year, how much of that would fall below that 6,300 level?

Mr Hartzer: I'd have to take that on notice.

Mr CRAIG KELLY: Okay. Going forward, can you give us some background on the reason that you selected the 6,300 figure?

Mr Hartzer: Yes. As I explained to Mr Bandt previously, our climate change policy is something that we update every three years. This time around we have been working on that policy for around 18 months. Clearly, the position around coal and coal production was a significant issue for us to think through. Where we landed was that the existing basins and the quality of coal being produced there would meet that top 15 per cent benchmark. It was actually set based on—you probably know better than I do what the definition is—a worldwide standard for coal produced.

Mr CRAIG KELLY: So you still have current investments with coalminers in Australia?

Mr Hartzer: We currently lend to coalminers in Australia, yes.

Mr CRAIG KELLY: Are they all above that 6,300?

Mr Hartzer: I think the answer to that is yes, but certainly the majority are.

Mr CRAIG KELLY: You also have a banking licence in India as well.

Mr Hartzer: We have a limited licence and a branch in India, yes.

Mr CRAIG KELLY: Does that enable you to loan money in India to Indian customers?

Mr Hartzer: Yes, in some circumstances, but I'd have to take on notice the exact details of what we can and can't do.

Mr CRAIG KELLY: Okay. Does that policy that you have for that threshold of coal apply in India as well?

Mr Hartzer: Yes.

Mr CRAIG KELLY: Are you aware of what the threshold is in India for their coal—what their average production and calorific values for their coal stands?

Mr Hartzer: No.

Mr CRAIG KELLY: If it was the case that the average calorific value of Indian coal was substantially below that 6,300 level and production in the Galilee Basin was around, let's say, 5,000 kilo calories per kilogram, if that was to offset production of Indian coal, which was, say, around 3,000 kilo calories per kilogram, wouldn't that actually be a better outcome for the climate?

Mr Hartzer: I understand the question that you're raising and the hypothetical point. What we can focus on is the loans that we do here in Australia and the contribution we can make. Our conclusion was that, for the Westpac group, setting a benchmark like that for the projects we would support was appropriate.

Mr CRAIG KELLY: But you said you did that for reasons of climate policy rather than economic policy?

Mr Hartzer: It is a combination.

Mr CRAIG KELLY: If that export of Australian coal, if it was at a value of 5,000 kilocalories per kilogram, offsets production in India, surely that has to be better for the climate; and therefore the policy you are actually implementing has perverse outcomes in relation to what the goal is?

Mr Hartzer: There are two points in that. One point is that we don't lend to coal mines in India, as far as I know. It is purely hypothetical about what any offset would be in India.

Mr CRAIG KELLY: Surely the project in the Galilee Basin is to export coal to India, which would therefore decrease the local demand for lower grade Indian coal?

Mr Hartzer: I'm not going to comment on the specific project. I'm saying that the other component of our decision making was around the time frame and the need for transition. Part of our conclusion was that the time frame around creating and opening and funding a new basin—our concern was that that wouldn't stack up.

Mr CRAIG KELLY: Do you expect the anti-coal protesters to go away at your next 201st birthday celebration? Do you expect them to be back, or do you think you've pacified them?

Mr Hartzer: 2017 was a one off.

Mr THISTLETHWAITE: According to Adam Creighton, a writer for *The Australian* newspaper, Australian banks are 'world champions at foreign exchange gouging'. He wrote a story on 2 October which points out, in his view, that Westpac and the Commonwealth Bank would charge a customer $610 to transfer $10,000 to a British bank account. That is 6.1 per cent. Is that figure true?

Mr Hartzer: I am not aware of exactly what that figure is or how it is calculated. We are conscious of trying to bring down the cost of foreign exchange transactions for small transactions. We recently introduced something called LitePay. It's an online facility that allows people to transfer money to something like 35 countries around the world very, very cheaply. I think it is under $10 for a transaction. That has been live for a couple of months.

Mr THISTLETHWAITE: According to this article, this figure of $610—which, if it's true, is basically highway robbery—is made in what is called a mark-up. You charge an inferior exchange rate to the customer than the exchange rate that you pay for transferring the money. Why don't you disclose that you're charging the customer an inferior exchange rate compared to the exchange rate that you pay for the transaction?

Mr Hartzer: I believe that we fully disclose what we do. This is subject to lots of regulations around disclosure and foreign exchange. We continue to update those over time. What you have to look at—which we are happy to look at offline—is what kind of transaction it is and what sort of operational controls are involved. The rates in the wholesale markets in large volume are different to the rates that are going to happen at a retail level when there's physical cash involved or lots of operational intensity. What I think I can show with LitePay is that we have been conscious that it is fairly expensive at a retail level for people to transfer money and we're trying to develop new ways to do it that are more efficient and cheaper for customers. LitePay is available now. It's a very low cost and efficient way to make a foreign exchange transaction.

Mr THISTLETHWAITE: Why has it been more expensive with Australian banks compared to other international banks? In this article they compare that $10,000 transaction. They say you and Commonwealth charge $610, while German banks like Deutsche Bank charge 50 euros to convert 10,000 euros, which is a 0.3 per cent mark up, and a US bank would charge about 3 per cent. Our banks are charging 6.1 per cent.

Mr Hartzer: I'd have to take that on notice to understand—

Mr THISTLETHWAITE: It's double what the rest of the world is doing.

Mr Hartzer: I don't know whether that is an apples-to-apples comparison. We are happy to take that on notice and have a look at it.

Mr THISTLETHWAITE: According to this article it is. You talked about disclosure, and you do disclose. Your web site says, 'When transferring money overseas by internet, the fee is $20.' If you were to look that up on the website as an account holder you'd think: 'You beauty! They only charge $20, I'm going to transfer $5,000 to an overseas bank account.' Then the bill comes back and it's $310 or something like that. The customer has the right to be pretty aggrieved by that when you you're not disclosing that on your web site, don't they?

Mr Hartzer: I don't know the details of the transactions that you are referring to. We'd have to go back and see how those calculations are being done.

Mr THISTLETHWAITE: Why don't you provide a total rate figure or a total cost figure for the transaction which includes the discount on the exchange rate plus that $20 transaction fee?

Mr Hartzer: Again, there are different exchange rates that are available to different customers at different times, as a function of what's happening in markets and the size of the transactions. I take your point, and I am happy to have a look at it, but it may not be as simple as that.

Mr THISTLETHWAITE: This is done in other industries and in other financial products—particularly, car loans and even home loans and credit cards. You are required to disclose the total cost to the customer. Why should it be any different for foreign exchange transactions?

Mr King: Let us come back to you with the LitePay details. It is a new initiative. It is 19 countries online at a flat fee. We're just not around the detail of that particular article, unfortunately, so it is very hard—

Mr THISTLETHWAITE: Is LitePay a separate account?

Mr King: It's an online capability for FX transfers.

Mr THISTLETHWAITE: So anyone who is an account holder with you can access this?

Mr King: I am pretty sure that's right.

Mr Hartzer: It is relatively new, but if that isn't true, it will soon be true. I think the answer to that is yes.

Mr THISTLETHWAITE: Do you recall when you brought this in?

Mr King: In the last year.

Mr Hartzer: Yes, within the last year.

Mr THISTLETHWAITE: If you can take that on notice, that would be good. The final question that I have relates to the front page of the *Financial Review* today and the story about the banking accountability regime. It's reported that it's been negotiated with the government that there will be an appeal mechanism for executives to the Administrative Appeals Tribunal and then to the Federal Court. How far down does that system go in terms of accountability? Who is caught by that? How far down in your ranks of senior management do you understand that the regime applies to? Which executives and managers does it apply to?

Mr Hartzer: I think that's still being determined. Our expectation is it would be the top executive team and certain people who manage large and significant portions of our business. It's probably a couple of dozen people, plus the board.

Mr THISTLETHWAITE: If it is true that this appeal mechanism is being negotiated, that would apply to all that are caught by this and not just a few, wouldn't it?

Mr Hartzer: It would apply to people who are within the BEAR regime, to my understanding. I have to say I am not familiar with any agreement that has been made about an appeal mechanism; I just know what I read in the paper as well.

CHAIR: I wanted to pick up on the issue of comprehensive credit reporting. By way of background, as you know, this is the idea of consumers' credit history—positive history as well as negative history—being available so that when a consumer goes to get a product, the information is there about their conduct and the fact that they have paid their mortgages or credit cards or whatever on time. This is something that has been talked about in the industry for a very long time, and it is something that is seen as a good thing for competition because it would mean that the incumbency advantages that the banks have in terms of having that information would be dispersed amongst a larger number of players who could then use that information to make offers and so on to consumers. In some ways, it is a similar concept to the open data regime, but a more specific application of it. The reality is that this has been talked about for a long time, but not much has happened. Back in August 2014, Westpac said in a submission:

> Westpac believes that natural competitive forces, rather than mandating, should shape comprehensive credit reporting … in Australia. This is consistent with overseas experience—

in other words, let the market put in place comprehensive credit reporting. That was more than three years ago. We still have a situation where comprehensive credit reporting in Australia is minimal, and people are asking, reasonably: what do we need to do to make this happen? Do you have a specific plan to make this data available by a particular date; and, if not, would you object to regulatory action to make it happen?

Mr Hartzer: We do support the move in that direction, and it is our intent to join that regime and for it to probably be live mid next year. So we have been working on it. The simple answer—well, there are two parts to the answer. One has been about technology and operations. The reality is we've had an enormous number of requests to us for data and improvements in technology and systems that, quite frankly, have been prioritised higher than this. It's a pretty complex technology and operational request. Peter can elaborate, if need be, on the other requests we have had about doing things with our data. It has just been a prioritisation question for us.

The second point has been more of a policy point, which is about protection of customers' data and protection from fraud. This is a real live, visceral issue for me because, a couple of weeks ago, I had a long conversation with my mother, in the US, who is 75 years old, because her personal details were compromised in the Equifax breach. I was on the phone with her for a very long time, trying to explain to her what the consequences of having her data stolen in that way were, and whether she should sign up for credit blocks, whether she should sign up for other fraud protection and what it would all mean. I can tell you this is a very real issue. This is a genie that is very hard to put back in the bottle once it gets out.

So our view is that these are not hypothetical concerns. These are concerns that every single Australian should worry about. If you go back in history, when I started in the credit card industry in Australia 27 years ago, there was vehement opposition to sharing data, on the basis of privacy. In fact, the banks at the time were advocating that it should happen. Society has moved on and the view is that we should do it, and we're now supportive of doing that and moving down that path. The reality of the digital world that we live in and the very real fraud risks and cyber-risks that are out there mean that we need to be careful about this, and it can go very wrong very quickly.

CHAIR: Sure. Mr King, has Westpac done any financial analysis of the potential impact of comprehensive credit reporting on the bank?

Mr King: I think in terms of the outcome—

CHAIR: The profitability impact—is it good or bad?

Mr King: Not specifically. The thing by customer is interesting, because I think, for this concept to work, you need all credit providers to provide information so that we can get a full view of debt across individual customers across all providers, because that's one of the responsible lending requirements. There'll be good competition for high-quality people; it could be a challenge for other people to access credit. There will be people that will benefit and, unfortunately, others that may not.

CHAIR: So you don't have a view on whether, commercially, it is a net positive or negative for Westpac?

Mr King: No.

Mr Hartzer: We don't, but my personal opinion is there will be a slight net positive for us.

CHAIR: Okay. A final matter, just for clarification, is in relation to this issue about payWave that we have been discussing today. Mr Hartzer, in response to Ms King's question, your argument was effectively that the consumer chooses by the method of the card they choose to present. Now, I'm not sure that I agree with that characterisation. As I understand it, what very often occurs is that a Visa card or a Mastercard is linked to a typical bank account, a debit account. When you set up that account, it says you have visa access through this account as well, if you want. I don't think it's the case, is it, that people are issued with two separate bank cards?

Mr Hartzer: They can be.

CHAIR: But does that happen often? Do people often ask for—

Mr Hartzer: It's their choice. This is an unintended consequence of a real positive in the Australian market, which is that, in Australia—and, by the way, this is not true in the US, for example—you can have multiple accounts linked to your one card. That's a great and convenient advantage. It's something we've had for decades that customers love. It's an unintended consequence. Then Visa and Mastercard roll out contactless, so of course it defaults to Visa and Mastercard, and now we go, 'Well, how do we deal with this other issue that you've got other linked accounts?'

CHAIR: Within your bank, if someone sets up a debit account and then it's linked to Visa or Mastercard, is the default position that you give them two cards?

Mr Hartzer: No, it's a choice.

Mr King: But, if you have a transaction card, you'll get an EFTPOS card.

CHAIR: I understand you could get two cards; I'm just wondering how often that actually happens.

Mr King: Yes, if you are overseas and you need to get cash in an ATM network, you need to use your transaction account, which has cirrus capacity.

CHAIR: Okay. So your argument is that people could have two cards and, if they present the Visa card, they're effectively electing the Visa card. What about those customers that just take the one card? In a sense, you're saying they've made that election at the point of choosing just to have one card?

Mr King: Looking forward, if we had digital wallets, say, on Apple phones, then you could choose which cards—the consumer can flick between the cards easily. We're here in our technology development. When wallets come in and you store multiple cards, we'll move to another place.

CHAIR: But today, if I just have a Visa card linked to my debit card, your argument is I've effectively made that election at the point of choosing just to have a Visa card?

Mr King: It's a credit card.

CHAIR: Okay. You were saying before, Mr Hartzer, that you don't effectively make any money off the credit card transaction. So is your position that you're economically completely ambivalent about whether it goes through the credit card route or the EFTPOS route?

Mr Hartzer: Broadly.

CHAIR: What do you mean?

Mr Hartzer: Well, we certainly like credit cards because they give us other opportunities to add value to customers and they give more functionality to customers. If a customer does choose to revolve their balance, we can make interest on that. My point is that, at a transaction level, most of the interchange revenue that we get from credit cards is absorbed by cost associated with providing that facility.

CHAIR: Okay. Thank you for your attendance. That brings us to the end of our hearing. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You'll be sent a copy of the transcript of your evidence to which you can make corrections of grammar and fact. Thank you.

Proceedings suspended from 12:27 to 13:16

ELLIOTT, Mr Shayne, Chief Executive Officer, Australia and New Zealand Banking Group Limited

GEORGE, Ms Alexis, Group Executive, Wealth Australia, Australia and New Zealand Banking Group Limited

HODGES, Mr Graham, Deputy Chief Executive Officer, Australia and New Zealand Banking Group Limited

CHAIR: We will resume the hearing. We have representatives from ANZ present for today's hearing. Although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Mr Elliott, would you like to make an opening statement?

Mr Elliott: Sure. Thank you for the chance to speak to the committee again. I wanted to briefly address four topics: one, our view of the economy; secondly, our response to these conditions; third, the significant improvements we are making for customers and the community; and, finally, our commitment to anti-money laundering laws.

Firstly, about the economy: jobs underpin the health of our community and our economy. Since March it is pleasing to see good employment growth. Our own ANZ job ad series is up seven per cent in five months and trend employment is up 2.6 per cent over the year. I do note, however, that underemployment remains a concern. Mining jobs are growing again and there is strong growth in tourism, health and other service sectors. Private investment has increased, assisted by growth in public spending and infrastructure activity. Some regional areas that have borne the brunt of the mining downturn appear to be stabilising and improving. When averaged across the country, house price growth is moderating. Household debt, however, has increased a little and at a faster rate than wages. But as debt has increased, so have savings. We agree with the Council of Financial Regulators that this is something to watch. The ability of households to withstand economic shocks has diminished a little.

That brings me to my second point on how we are responding to these conditions. We think it has been prudent to tighten home loan standards and encourage customers to pay down debt at a faster rate. We have done this by reducing our rates for people paying off their loans and removing fees for people moving from interest-only to principal-and-interest repayments. Our price and policy changes have taken into account portfolio risk, the competitive environment and our capital and regulatory requirements. Pleasingly, about 38 per cent of our home loan customers are actually repaying their principal faster than they are required to do. Having said that, I do acknowledge that some customers are doing it tough. This is generally due to job losses, reduced income levels, family breakdown or illness. We work closely with people in these situations to reschedule their payments, reduce interest rates and even grant repayment holidays. On the business side, credit growth remains low. I am optimistic, however, that this will improve as more businesses build confidence to invest. In particular, I am encouraged by our own customers' interest in expanding offshore. This year we have taken around 62 business customers to Asia to help their export businesses, and there is strong interest in our Be Trade Ready website.

I would now like to turn to our customer-focused reform work. We have acknowledged that we must do better as an industry. I am determined for ANZ to lead the way by building a bank our customers, our staff and the community are proud of, but I accept we have much to do. But we have achieved a lot in a short period. In August I wrote to all of our people about *The ANZ Way*, a guide to the way we work and our promises to customers, because I wanted to make it clear that we will raise standards in everything that we do, going beyond merely complying with the law. Colin Neave, our customer fairness adviser and the former Commonwealth Ombudsman, has strengthened our approach to customer remediation. We will publish principals to assure our customers that ANZ will quickly acknowledge and compensate any failures. We are changing how we pay people, including through new scorecards that emphasise good customer outcomes.

We are taking the spirit of the Sedgwick review beyond its focus on branch staff. With the rest of the industry we are working through the Sedgwick and ASIC home loan broker recommendations and we have strengthened the governance of our broker channel. We're also working with the industry to include new consumer protections and a shorter and simpler banking code of practice. To deliver better quality financial advice, we're doing more audits using data analytics and providing better training. If we don't get our advice right, a dedicated advice review team examines this and compensates customers. The new ABA reference checking protocol is making it difficult for advisers with proven conduct issues to move from firm to firm. There is, however, a risk of these advisers joining firms outside the protocol, and we urge parliament to close this loophole.

As we discussed in March, ANZ is supporting reforms recommended by this committee. We see real benefit from the banking executive accountability regime, and we've started our implementation planning. We're working to make open data a reality by setting out a deliberately simple and safe form of open banking for the government's independent review. Our suggestions provide a pathway for open data across the economy that can drive innovation. We will start sharing comprehensive credit data next year. We look forward to the commencement of the one-stop Australian Financial Complaints Authority, and we are engaged with the Productivity Commission's review into financial system competition and support making it easier for new and smaller banks. We encourage the government to look at reforms that will drive safe financial innovation, such as digital identity.

Finally, I would like to comment on anti-money laundering. Action against financial crime is in everyone's' interests. At ANZ we work closely with government to detect and disrupt those who seek to break our laws. It is our responsibility to ensure that we only open accounts for people we know and trust. We also need to report cash transactions of $10,000 or more, all international fund transfers and any matters that raise concern. Each year, we report millions of transactions to AUSTRAC. AUSTRAC has advised us that it has found no evidence of noncompliance concerning our ATM network.

So, to recap before taking your questions, stronger economic conditions are helping communities and reducing financial system risk. At a time of low wage growth and high levels of debt, we are encouraging less risky forms of lending, and we are deeply committed to customer-focused reforms as they help people and communities thrive. Thank you for your time.

CHAIR: Thank you Mr Elliott. I wanted to pick up on the issue that you addressed in your statement regarding AUSTRAC and anti-money-laundering legislation, which is a very serious matter. Similar to a question I asked Mr Hartzer, could you paint the competitive commercial picture as it relates to the use of these machines for deposits? Your limit is $5,000. Obviously, Commonwealth Bank made a decision very different to you in having a limit of $20,000 for those deposits. What are the commercial motivators here around why banks would have a particular limit on the use of these machines for deposits?

Mr Elliott: We have to balance two things here. They are in our customers' interests, because these machines are efficient. It's easy, they are generally 24/7—not always but generally—and they are really used increasingly by small businesses that have the need to deposit cash. They are efficient and effective and our customers like using them. On the other hand, we obviously have a responsibility around making sure that we do everything we can to reduce financial crime. We are very conscious of our reporting obligations and when we did the risk assessment we wanted to have a safety margin, so we put in a limit of $5,000. I think it's important to note, though, that that is not the only control we have in place. We monitor activity in a pretty sophisticated way—and I think Westpac referred to the same examples—by making sure that people don't do multiple transactions of $5,000, and they are not walking into the branch depositing $5,000 and then going to the ATM. So we have all sorts of scenarios and data that we analyse.

CHAIR: Leaving aside the regulatory issue for a second, from a purely commercial perspective, would it be fair to say that, by seeking to scrupulously comply with the law, you are effectively at a competitive disadvantage, arguably, against another bank that accepts $20,000 deposits through those machines?

Mr Elliott: Potentially. I'm not sure that that was widely known by customers, possibly, until recent press reports about those limits. To some extent it was in our interests not to publish those limits, because the more transparent those limits are, the easier it is for criminal activity to manoeuvre around them. I take your point, but it's not something that we particularly took into account. We really focused on the risk aspects.

CHAIR: Presumably, there are legitimate businesses that want to deposit $15,000 because they're high-turnover restaurants or whatever and it would be a competitive advantage, presumably, if you could take that larger amount.

Mr Elliott: I think that's potentially true, yes.

CHAIR: I want to come to this UBS report, which no doubt you've read about in recent days—the so-called 'liar loans' report. UBS conducted a survey of mortgage applications and effectively stress tested the factual accuracy of those mortgage holders against reality. They made a number of conclusions, including that, broadly, there was a very high level of inaccurate representations by borrowers. Relevantly to you, they said that ANZ was the worst affected by this issue and that your applications have, according to UBS, the lowest level of factual accuracy in the sector, so much so, they said, that 45 per cent of mortgages that you hold, in their view, have been subject to false or inaccurate representations by the borrower. That's obviously a massive number—45 per cent—and I would imagine that would be of great concern from a prudential perspective, a risk perspective and a range of other perspectives. What's your response to that UBS report?

Mr Elliott: Firstly, it's not in our interests to lend money to people who can't afford to repay. Under our responsible-lending responsibilities, we have to take reasonable steps to assure ourselves that our customers do have the ability to repay. What was missing from the report and some of the journalists' articles afterwards was that we don't just rely on what customers fill out on a form. We've been in business for 185 years, and it's not new to us that sometimes customers forget to tell us all the full details of their financial situation. So we have all sorts of systems in place and checks and balances to mitigate that, and that's really very important as part of the process.

CHAIR: But UBS says that, basically, you are worse at this than the other banks.

Mr Elliott: I think it's worth looking at the way that the survey was done. We have a million mortgages on our books alone at ANZ. The entire sample size for that survey was fewer than 1,000 for the whole country. Based on our market share, that means that survey was based on 150 ANZ customers; to then extrapolate that to say that that's true for the whole million I think is a bit of a stretch. But the fact is that we have systems in place to verify—to check—as we are obliged to do and because it's good business, to make sure people do disclose what their financial situation is, and then we test it to see if it sounds reasonable before we approve anything.

CHAIR: Do you benchmark your processes against the other banks?

Mr Elliott: We don't know necessarily what the processes of other banks are.

CHAIR: So does it surprise you—

Mr Hodges: Sorry to interrupt, but I would say that APRA have done two hypothetical borrower scenario investigations in the last three years or so and we benchmarked very well in those scenarios. I think it involved about 18 participants in the sector and showed where we sat around a range of those areas. On many of those—most, I would say—we were at the conservative end of that.

CHAIR: So the UBS's report is wrong, in your view?

Mr Hodges: It's a survey. Ultimately, with a relatively small population survey, you'll get numbers which won't necessarily reflect the portfolio. As Shayne said, the process we go through here, both internally but also with external people who refer loans in, is rigorous.

CHAIR: Sure. I guess the point is that the UBS survey, for its faults, has identified your clients as more problematic than others. I think what you're saying is you don't accept that and you think the UBS report is wrong. Is that a fair comment?

Mr Elliott: What we're saying is that we don't base our credit decisions purely on what customers tell us at the time of the application and that we do rigorous testing around that, and then we run a bunch of stresses against that. For example, if somebody comes to us and says that their current household expenses are X, we go away and check it against the HEM index—and I know you are aware of that index that we look—to see whether it sounds reasonable for a family of that situation. We then take the higher of the two. If somebody's income is reliant on an investment property, we discount the rental and assume it's lower. We run a bunch of stresses to make sure that people can afford the loans that they are applying for.

Mr Hodges: When we look at an interest-only loan, and a number of those obviously had that, we assess it on a principal and interest basis in terms of serviceability. As Shayne said, it's not in the bank's interests to lend money and not be able to have the customer afford to repay us. We do believe our processes are conservative in that sense.

CHAIR: You don't think 45 per cent of people have misled you in their applications?

Mr Elliott: It's a sample size of probably 150 of our customers.

CHAIR: No, I understand. But let's be very clear: you're saying you don't agree; it's wrong from your perspective.

Mr Elliott: We haven't seen the actual detail of what they did. We've read the report like everybody else. Whether it is true or not, the issue is: do we have good risk processes and systems in place to mitigate that? We are confident that we do.

CHAIR: I want to move onto OnePath and specifically the compensation. Recently, ASIC confirmed over $10 million in additional compensation that was paid to 160,000 of your customers for various breaches between 2013 and 2016. This was things such as the inappropriate processing of their balances, failure to correctly deal with lost balances and a number of other matters. Given that this matter has progressed somewhat since we last spoke, I want to understand whether there have been any consequences for senior management as a result of these OnePath breaches?

Mr Elliott: I might ask my colleague Alexis to talk about the status of that one.

Ms George: Firstly, I think you are aware of where we are at in relation to that. We have two items to close and the number did grow, and it grew because we had to go back and look at individual customer circumstances and make sure we put them back into the positions they should have been in. If we look at the real consequences of that, firstly I would like to point out that we migrated nearly 300,000 customers from legacy products in to new digital, transparent products; as a result, offering the customer quite a better service. As a result of that, we did discover some of those issues. If we talk about consequences, it's the same across the bank. There are many forms of consequences that we can apply to executives, including development opportunities, remuneration and promotions. Those things were considered in those particular examples.

CHAIR: What happened?

Ms George: I can't recall the individual ones now because we're talking about several years ago, but there would have been consequences for some of those people as a result of that.

CHAIR: I think we are talking about things that that happened between 2013 and 2016, and we are talking about an additional fine effectively—or compensation of $10.5 million.

Ms George: Firstly, it wasn't additional. The total amount was 10.5 and it did increase from 4.5, where we originally estimated it to be.

CHAIR: Are you saying as the head of the division that you don't know what the consequences for management were?

Ms George: I honestly don't know the individual consequences. At that particular time, I wasn't in this role, but there would have been consequences for particular people that were involved in that, including remuneration—

CHAIR: When did you start in your current role?

Ms George: 14 months.

CHAIR: Okay. I would have thought that, given that this is a fairly significant issue, you would be aware of what the consequences were for management?

Mr Elliott: The reality is the senior management of the wealth division has changed considerably. It changed when I took over as the CEO in January last year. Were performance issues in regard to the business performance and were some of the risk issues taken into account when we were making decisions around the right executives to run that business? Absolutely, they were, and that's why we've seen a reasonable amount of change. I think what Alexis is referring to is that down in the more operational areas of the bank there were clearly consequences for those people as well, people who are either no longer with the bank or had their incentives changed or had their promotional or career opportunities changed as a result.

CHAIR: I noted your comment that you support the new BEAR, the accountability regime, and this is the sort of matter, no doubt, to which it would turn its mind.

Let's move on to comprehensive credit reporting. It is interesting that recently there have been various comments from the banks about, 'Well, we're going to do comprehensive credit reporting now.' As I said before, I think this is in the same sort of scheme of issues as open data, because basically it is about liberating information—after all, it is the information of the customer—and enabling that information, with the customer's consent, to be accessed by others so that they can make competitive offers and so on. You said to the FSI report—or, your submission more than three years ago said:

> Comprehensive credit reporting (CCR) is a major improvement to the availability of information and will provide significant benefits to financial institutions, consumers, and small businesses over time. ANZ is implementing CCR systems and would expect the market will inevitably move towards the inclusion of SME lending in CCR.

That was more than three years ago, but not much has happened, right? Is that because, commercially, it's not actually a good thing for incumbent banks?

Mr Elliott: No, I don't think so at all. I think it's an issue of scale. Comprehensive credit reporting works really well when you have more banks contributing, because then there is a real richness in the data that's available. I think there is progress on this. Some of our peers have announced they're moving towards a CCR regime. We've announced we are doing so next year. It is coming and it will be to the benefit of customers.

CHAIR: But it has been coming for several years, though, hasn't it?

Mr Elliott: But this is real. We've said we're going to do it and we're going to do it.

CHAIR: Can you explain the time line for that and what, if any, prerequisites or hurdles there are between you saying that you're going to do it and actually doing it? For instance, would you turn around in six months and say, 'Well, bank X didn't do something so therefore we're not doing it'?

Mr Elliott: No, we wouldn't say that, I don't think. I think that now there is a critical mass of larger banks. I would point out that while we are one of the big four, we are relatively small: we have 15 per cent market share. We will be contributing; we will not be making those kinds of excuses.

The real issues and limiting factors are that there is a lot of process to change and there is a technology investment required. It's something we actually have to invest in to get ready to do and that is exactly what we're doing. I can tell you that the CCR work—the project, if you will, under that—is funded in the bank. It's one of our key priorities. Just yesterday I was down with the team and looking at all the project investments we are making, and there it was right at the top of the board. So it is something we're committed to doing.

CHAIR: Okay. You mentioned the Australian Financial Complaints Authority in your opening statement—the one-stop shop for consumer redress that the government is putting in place in response to a number of things, including the recommendations of this committee. So, do you believe that that is on the right track and are you supportive of that process?

Mr Elliott: Yes.

CHAIR: And have you been engaging around the final structure of the AFCA and so on?

Mr Hodges: Yes. I met with Professor Ramsay many months ago now. We had our first round of dialogue and I think there has been dialogue with the banks since then as well. I gather that the report is pretty much done and has been handed to government, and that we're waiting to hear the outcome from that. So we have been actively engaged in that.

CHAIR: Okay, thank you. Another issue arising from our last round of hearings was the new financial services unit within the ACCC—

Mr Elliott: Yes.

CHAIR: under the leadership of Marcus Bezzi. As I understand it, this team is on the ground getting internal banking documents, emails, board minutes, board subcommittee minutes, other exchanges and so on. I presume that the team has been in touch with your bank?

Mr Elliott: Yes.

CHAIR: We talked a little earlier about interest-only loans and the response to APRA. I note from the various analysts' reports that the consensus seems to be that your adjustments in relation to these changes are, in a sense, less disproportionate than perhaps some of your peers. But when Mr Bezzi's team very carefully goes through all of the internal analysis and documentation and so on, do you think that what they will find will be entirely consistent with your public statements?

Mr Elliott: Yes.

CHAIR: And have you made the existence of this team clear to all of your executives, and the fact that it is important that the bank is open to this team and makes documents available as required by the team?

Mr Elliott: Absolutely. We sent a note and spoke to not only all of the people across, obviously, the relevant part of the bank but also all of our senior executives to make them aware that the review was taking place and that they were to be totally cooperative and provide any and all data and feedback that was asked of them.

CHAIR: In terms of the specific impact of the APRA interest-only change, where it's required a 30 per cent speed limit on new interest-only loans, you, like the other banks, have increased rates for all interest-only loans, not simply new interest-only loans. Given that the requirement only pertains to new loans, can you explain why you've also increased rates for existing loans?

Mr Elliott: I think it's important to step back a little bit.

CHAIR: Why don't we just answer the question? It's quite clear that it only applies to new loans, so can you explain why you've also increased rates on existing loans?

Mr Elliott: Yes. It's because we run a business, and we need to make sure that it's prudent, that we identify risk and that we price for it appropriately while still providing good, decent service to our customers. We started changing our approach in terms of lending standards, policies and pricing well before APRA put in place that speed limit. In fact, our first changes around interest-only loans started in April 2016. We made policy changes. We've reduced the amount of time people can pay interest only for; we've reduced the maximum loan to value on that. That was well before the speed limit, because we assessed that the risk in that book was changing and that we needed to be mindful of that. In fact, the first pricing changes we made, where we increased it for some customers, was on 24 March, which was a week before the speed limit came in place. Then, subsequent to the speed limit—probably a month or two later—

Mr Hodges: Two months.

Mr Elliott: we came out and reduced rates. We were first. We reduced rates for people who were paying principal and interest, whether they were investors or owner occupied, and increased others. We reduced it by five basis points for some and increased it by about 30 basis points for the others. We did that at a time when we did not know what our competitors would do and what our customer behaviour would be. We wanted to reward customers who repay principal because it's the right thing to do, and we wanted to give the right signals to them to move. I understand the point of your question. Yes, we repriced the back book, in our language, but we also gave those price cuts to the back book as well, so I think we were fair, reasonable and even-handed in the way that we applied those price changes.

Mr Elliott: Plus, we did introduce, for that transition period particularly, a fixed-rate principal-and-interest loan which was at the lowest we've ever given, which was 3.88 per cent. It was a chance for people to switch from an interest-only loan to a principal-and-interest fixed loan, which meant that the actual amount of money they had to pay each month was actually relatively small. That's because we were aware that people, if they were switching, would have to step up and pay some more money, even though they were getting the benefit of paying down their loan.

CHAIR: Indeed. One of the arguments that Mr Hartzer made this morning in relation to the back book people who have had their rates risen is that they can switch to principal and interest where there's a lower rate. There's no doubt that you'd make a similar argument. But, as you've noted, Mr Hodges, if you switch to principal and interest, by definition, as I understand it, you're paying more because you're paying interest and principal as opposed to just interest. Presumably, one of the reasons they may have happily contracted on an interest-only basis is because they were in the financial position to do so and that's what they were able to do. Isn't it disingenuous to go back to those people who actually aren't affected by the regulatory action and say, 'We have determined that, effectively, it's good for you to move to principal and interest'? It has the, from your perspective, happy coincidence of increasing profits at the same time.

Mr Elliott: I don't quite see it in those terms, but I understand your question. The point is: first of all, in terms of the notice period, we gave four months of notice for people to make changes, whether that was making a move with us or perhaps moving to a competitor. Going back to the point you made earlier, when people come in and ask for an interest-only loan, we assess them on the basis that they can afford to pay principal and interest from day one. If we assess them as, in a responsible way, being able to afford that, then we may consider it if they asked to pay interest only. So we do assess people's ability to be able to afford to pay principal. As you well know, rates have actually been falling for many years, so the nature of a variable-rate loan is that, when rates fall, they go down—and they've been getting the benefits of that—and, when they go up, they go up. And, to Graham's point, we knew that that could be difficult for some. That's why we gave lots of time and we gave alternatives, and we gave a very competitive low fixed rate loan for people who wanted a bit more certainty about that.

CHAIR: Did you conduct financial analysis on the direct financial cost to the bank or potential financial cost to the bank of complying with the APRA speed limit on interest-only loans?

Mr Elliott: Not so much about the speed limit per se. We did financial analysis about our price changes, absolutely. Yes, of course, we went through—

CHAIR: But before you do that, wouldn't you say, 'I think you're running it; what about 38 per cent' or something 'of interest only, if that drops to 30?' given that it's a more profitable product. All things being equal, that would be reduced profits, wouldn't it?

Mr Elliott: It depends what customers do. There's an assumption there that all ANZ customers stay with ANZ and those people move. That's not reality. I should point out, turnover is—it's a competitive market. About 10 per cent of our customers with a home loan choose to leave and go somewhere else every year. There are a lot of factors. Not to my recollection did we do an analysis purely with everything else holding still and say, 'What if it slows down to the speed limit of 30?' We absolutely ran analysis and said when we reduce rates on principal and interest by five points that will come at a cost. When we increase rates—by the way, just to give you the numbers, about two-thirds of our customers got the benefit of a lower rate. Two-thirds got the benefit of a cut, a third went up. Yes, we run the analysis—

CHAIR: Yes, but it's a much larger increase than a responding reduction, right?

Mr Elliott: Sure, but we were first. We did not know what the competition would do. We did that at a risk that a lot of those customer would choose to vote with their feet and go somewhere else or go to the fixed rate, which is a much lower-margin product. So there are a lot of variables. But, yes, we run scenarios to understand the financial impact. We have a responsibility to our shareholders to understand that we are getting returns for—

CHAIR: I do note in your press release, on this issue, you named a number of factors in relation to the rate rise. In relation to this issue about payWave and the impact on merchants, we all learnt about credit cards this morning. To put it in very simple terms, I would guess, and you would know far better than me, that there are a lot of people out there who have a debit account with one card that is provided or chosen that has a Visa or Mastercard badge in the corner. It's just one card. They don't have an EFTPOS and a Visa and proactively choose, case by case, which one they're going to use. I'm sure some people do, but I'm sure there are a lot of people who don't.

In relation to this issue of it being routed through the higher cost credit network, when someone simply presents the card with the Visa or Mastercard chip, Mr Hartzer made the argument that the consumer has elected to use Visa or Mastercard rather than EFTPOS by presenting that card. A lot of merchants might say, 'Well, not really, because that consumer probably uses that one card and has no cognisance of the underlying fees that are charged to the merchant or the fact that, ultimately, those fees charged to merchants can boomerang back to the consumer.

So do you think it reasonable, as I understand it, that the banks, if I do present that Visa or Mastercard at the shop, automatically route it through the higher-cost channel, or do you think it should be much more explicit and with, preferably, a default option that pursues the lower cost rather than higher cost?

Mr Elliott: I think Mr Hartzer has covered some of this. The reality is that the original default was because Visa and Mastercard were the innovators here—in fact, they launched payWave in 2011, I think—so they were way ahead. Let's remember who owns EFTPOS: we do, the banks. So we have nothing to gain, here, by EFTPOS not being successful.

CHAIR: Just on that point, is it the case that you are, economically, completely ambivalent about whether it goes through EFTPOS or the cards? I would have thought the cards were more attractive for you.

Mr Elliott: If you are doing the pure maths on the finances, it'll be here or there, either way. I don't think we would pay a whole lot of attention to it, to be perfectly honest. That's not really the driver. The driver is, 'What's the best customer outcome and how can we do great things for our customers so they choose to come with us?' That's why we launch things like Apple Pay and Fitbit pay and things like this. But to your point, Visa and Mastercard have been in place for a period of time. They set the standard—and great; Australians love it and they really enjoy it, and we have the highest penetration of contactless payments in the world. EFTPOS, a little bit late to the game, only just launched recently. The good news is that that is spiking usage of the EFTPOS contact list. It's spiking up really fast.

Now we get to your point. We essentially have three types. We have a credit card, a debit card and the hybrids. We all understand credit and debit cards; they go to the default. On your question about the hybrids: until now there really hasn't been a choice. I think Brian made the point: if you insert the card, you get to choose, but with contactless, you don't, so it's defaulted to Visa. It's the machine that sits on the shop counter that makes the decision.

What we're doing now is saying: if those merchants want to default it somewhere else then we will do that for them. If that's our customer, we're happy to do that. Now, maybe it's to do with the publicity—and I know there'll be a lot more after this inquiry—but at ANZ we've had one merchant who has come to us to ask us, 'Could you please switch the default?' We will do it. We'll work with them. It takes a bit of investment—

Mr CRAIG KELLY: I'm sure there would be a lot of merchants who would be pleased to hear that.

Mr Elliott: One important thing that wasn't covered this morning were the rates that were talked about in the reports—the carded rates. A lot of merchants don't pay those rates. They get discounts because of the volume they put through or because of the relationship they have with the banks. The pricings are not the same; they are actually different. Lots of people today, for example, will even use contactless to buy a cup of coffee. The merchant fee paid on Visa and Mastercard is actually lower than EFTPOS for very small transactions, so it's not quite the same. It does depend on the nature of your business.

CHAIR: It's materially higher overall—

Mr Elliott: But if I'm a coffee shop, and the average transaction is $5, I'm actually getting a good deal. So it's not quite—

CHAIR: But I think your key point, Mr Elliott, is that if merchants want to do that—to route through the lower-cost channel—then you'll facilitate that happening.

Mr Elliott: If they're our customers, obviously, yes, we will do that.

Mr THISTLETHWAITE: I want to ask some questions about AUSTRAC. The AUSTRAC statement of claim that has been filed in the court proceedings as part of their allegations against the Commonwealth Bank also makes the claim that half of the six money laundering syndicates that they've identified have washed major portions of their funds through ANZ accounts. Is that something that concerns you?

Mr Elliott: Yes, of course.

Mr THISTLETHWAITE: Has this been discussed at the board level in your organisation?

Mr Elliott: Yes. What we did, when the press report and the actual statement came out, was convene a board meeting, I think, literally the next day. We went through that statement of claim—and there were obviously some press reports and stories—to make sure about whether there were any issues that we needed to deal with urgently, whether there was anything in there that we needed to be aware of, or whether there were any changes we needed to make. As you would imagine, that's triggered quite a large amount of work for us to go back and retest all our processes and to look again at our relationships. We met with AUSTRAC—I've personally met with them—just to make sure about whether there was anything we could learn from this, so that we could tighten up controls further.

Mr THISTLETHWAITE: The CBA also claim that they were going to use court discovery to query whether rival banks had made sufficient disclosures. Have they done this with ANZ?

Mr Elliott: Not to my knowledge, no.

Mr THISTLETHWAITE: Are you confident that ANZ has made all the relevant disclosures to AUSTRAC under this anti-money laundering and terrorism financing legislation?

Mr Elliott: Yes.

Mr THISTLETHWAITE: That's good. On the issue of Prime Access refunds: ASIC, in a media release in May 2017, found that further compensation of approximately $7½ million was required to be paid to ANZ Prime Access customers for ANZ's customer failure to rebate commissions in line with agreements with customers. That was in addition to the $52 million in compensation that ANZ has already paid as part of remediation for the fees-for-no-service issue. Can you explain why you had to pay this additional $7.5 million to customers?

Ms George: Firstly, we're almost at the end of that process. I think we have about 150 customers now that we're yet to remediate. Unfortunately they're customers that are in deceased estates now or that we are unable to locate, so we're still trying to move through that. We're very much at the end of that process. As we've gone through the process of lifting files, looking at files, it was important that we be as thorough as possible. As a result of that we found some additional customers and we put them back in the right place where they should have been. But it's important to note that we're really at the end of that process right now.

Mr THISTLETHWAITE: The way ASIC tried to characterise this was that it's $7.5 million of additional compensation that you're required to pay, and you're saying it's because—what is it? A further sweep of all the customers or—

Ms George: In consultation with ASIC, although we've done it ourselves, we've had to go back and look at all the processes over a number of years. As we've become more and more thorough with each customer, we've found some additional fees that we need to reimburse. I don't think it's an expansion of the problem; we've been more thorough—we've made sure that we went through the files with thoroughness.

Mr THISTLETHWAITE: Is it a concern that you're continuing to find more customers who you need to compensate?

Ms George: It's important to note that in the financial advice space, over the last few years, we've really focused on improving the auditing and monitoring, we've put in place new professional standards across advisers and we've also, in conjunction with the ABA, brought in reference checking. We're going through a massive transition in financial advice to improve the quality there. As a result of that we are finding additional issues. I can't sit here today and say that we're not going to find more, because, with the use of new technologies, we can really hone in much quicker on issues and we can identify issues quicker. We need to get the people who are doing the wrong things out of the industry.

Mr THISTLETHWAITE: **I**n terms of the wealth business that ANZ owns, is it true that you're trying to sell that at the moment?

Mr Elliott: For a couple of years now we've been rethinking the best way that we can offer the best service to our customers. People are insuring their life and their loved ones and also saving for their retirement—a really good idea, and most Australians should do that—so we want to be in the business of providing those solutions to people. We don't necessarily have to be the manufacturer—the people who actually manage the life insurance or superannuation—so we're seeking a better model, and we've highlighted that for a period. We'll be in the business. You'll always be able to come to ANZ, whether it's through a branch or through a planner or digitally and find those solutions, but we want to work with partners. We're in the process of looking at that right now as we speak, but that doesn't take away any accountability for us in terms of doing the right things by customers. That stays with us, clearly.

Mr THISTLETHWAITE: No; I'm not suggesting that. But you are trying to sell that business at the moment?

Mr Elliott: We've said that. We're going through a process at the moment to look at the—

Mr THISTLETHWAITE: Who will have responsibility for these issues that are ongoing with wealth management?

Mr Elliott: We will.

Mr THISTLETHWAITE: You're not going to sell those liabilities as well?

Mr Elliott: No.

Mr THISTLETHWAITE: Does that include Timbercorp?

Mr Elliott: Timbercorp is not really part—

Mr Hodges: We didn't lend money to any customers around Timbercorp.

Mr THISTLETHWAITE: I know that.

Mr Hodges: We had the synchronisation loan to the entity. That was a wholesale loan structure.

Mr THISTLETHWAITE: So it shouldn't be affected by the sale?

Mr Hodges: It won't be affected at all.

Mr THISTLETHWAITE: Ms George, is it the same case for the OnePath breaches? ASIC announced in August that there's an additional $10½ million in compensation for 160,000 superannuation customers within the OnePath group. Is that again you continuing to look over these accounts and reviewing them?

Ms George: It was just about being absolutely clear about what was owed to customers and putting them back in the position they should have been in. That's what we've done with both of those processes. Regardless of whether there is a transaction or not, the responsibilities for finalising those remain firmly and squarely with ANZ.

Mr THISTLETHWAITE: Going back to the issue of the so-called liar loans that the chair mentioned earlier, the survey that was mentioned found that, of all the big four banks, ANZ had the highest proportion of those so-called liar loans within that 907 sample. Is that something that has triggered a review within your organisation? If so, what has the outcome been of that review?

Mr Elliott: Of course we're sensitive to any third-party information. We'd be negligent if we did nothing on that. So we did go back and say, 'How could this be? What have we misunderstood? Should we go back and look?' We're doing that as we speak. We haven't seen anything, as I mentioned. That survey was really about the veracity of what people tell us at the application, but, as I said, that's not how we assess the loan. In fact, we do a lot of adjustments to that. But we have gone back and, absolutely, we're going to look at that to try and understand why that might be. I'm not in a position to say whether it's right or wrong or potentially misleading. As I said, the sample is pretty small, but we're going to do our best to learn from it—absolutely.

Mr THISTLETHWAITE: Has the bank amended its credit assessment for residential home lending recently?

Mr Elliott: We're constantly changing it. Over the last two years we would have made changes to our policies probably every month or so. So we're constantly trying to tighten that up and learn from what's happening in the marketplace, where we see risk et cetera.

Mr THISTLETHWAITE: Do you use the household expenditure benchmarks as well?

Mr Elliott: Yes, we do. We don't primarily use them. We lend based on, first of all, what people tell us about their actual expenses. If they are a customer of ANZ we can check that and see if that matches with what we see in their account. But, increasingly, particularly for somebody like ANZ where we are relatively small, a lot of our mortgage customers aren't banking with ANZ, so we don't have that ability. That's why comprehensive credit reporting will help going forward. We use things like HEM, the Housing Expenditure Measure, to check to see whether what we are being told by a customer kind of makes sense.

Mr THISTLETHWAITE: Is it the case that you use that as a default or do you only use that in the circumstance where you believe that the customer might not be telling you the truth about their expenses?

Mr Elliott: That's a good question. If a couple walk in—I'm making this up—and they tell us that their expenses are $1,000 a month, if they are an ANZ customer we check and look for evidence of that. We then check it against HEM and say, 'Hang on; a couple with two kids with that income should be $1,500 a month' or whatever. We then go back and ask them. Maybe they've forgotten something. Maybe they forgot the life insurance policy, the car lease or the private school fees or something. So we use that as a test. If we are not sure, we default to the higher of the two to give us some safety and make sure what we are doing is responsible.

Mr THISTLETHWAITE: So there can't be a situation where the expenses that the loan applicant reports are higher than the HEM and you default to the HEM?

Mr Elliott: No; we take the higher of. That is a good question. That doesn't happen that often; it's probably 20 or so per cent of the time that people actually disclose higher expenses and we take the higher of.

Mr THISTLETHWAITE: I have some questions about your funds. In terms of the retail super funds that ANZ operates, you have got the ANZ OnePath Masterfund that has 990,000-odd member accounts with a total of $34.5 billion in funds under management. They record zero investment fees and zero expenses. Does that OnePath Masterfund really cost nothing to run?

Ms George: It would be interesting to find details on that. Clearly, it costs money to run our funds. Under the new legislation, we are transparent about all the fees that are in our funds. We have to be and we abide by the legislation.

Mr THISTLETHWAITE: Are you referring to RG 97?

Ms George: Yes. There are a couple of cash funds that have zero fees. They are cash funds and low money to run and we pick that up through the admin fee. If you give me some details of the particular things, I would be happy to look at that. But it is important to understand that there could be bottom funds where they are zero. It is the actual fees that the customer pays that we disclose to the customer, because that is what is important from the customer's perspective.

Mr THISTLETHWAITE: So if the customer is a member of OnePath but they've got investments in an associated entity and OnePath is disclosing zero investment fees and zero expenses, are you saying that fees from the associated entity will be disclosed?

Ms George: I'm saying there could be some wholesale funds at the bottom levels where it might be disclosed as zero. As it rolls up, the real fees that are charged to the customer are absolutely disclosed to the customer, with the exception of the ones that I mentioned about a couple of cash funds, which are really zero.

Mr THISTLETHWAITE: If you have funds like this OnePath Masterfund, with so many customers, how do you make money on them?

Ms George: We charge an administration fee. So we make money on administration fees. We use various investment managers who charge fees as well, but they are included in the disclosure to the customer. If they are not cash funds that you are referring to, I am more than happy to take that question on notice and have a look at them. They could be wholesale funds, as I said, that roll up into the funds we offer customers directly.

Mr THISTLETHWAITE: Okay; I will provide those questions in detail on notice. I just want to ask some questions about consultancy fees. It has been reported that, in the financial year to June 2017, you reduced your full-time equivalent staff by six per cent. Is that correct?

Mr Elliott: Yes.

Mr THISTLETHWAITE: But, in the same period, you paid consultants, particularly Ernst & Young, more than $20 million in consulting services. Some might say that you have got your priorities wrong and that you are not getting value for money in paying consultants this much money and reducing your staff, particularly in the context of closing branches in regional areas.

Mr Elliott: I can understand that question. First of all, the reductions in staff are not all in Australia. We operate a bank in 34 countries. We have been restructuring the kinds of business—what we do, for whom and where. That has resulted in having fewer people.

Mr THISTLETHWAITE: Can you tell us—and you may need to take this on notice—what percentage of that is Australian?

Mr Elliott: Sure. I will have to take it on notice. I can't recall. The Australian numbers have come down too, but it is not all from there. As to the consulting fees: 'consulting' is a broad-brush description of things. For example, a lot of the professional services firms do tax work for us. They are the people who help us do things like CPS 220. They do the reviews. We have to pay for that. They come in and do risk reviews for us. They provide a wide range of services. This is not in the general bucket of management consulting and talking about strategy and theory. They are usually doing risk-related work or, increasingly, actually, a lot of those practices, like EY, will have quite large technology practices. One of the issues—and perhaps another time we can talk about it—is the lack of skills in Australia around certain digital and data skills, and therefore it is really difficult to hire the right people and so we are forced to use consulting practices to mitigate that risk so that we can get out great products to our customers.

Mr Hodges: Part of that, too, is that, if we have a relatively short-term project into which we are looking to attract particular skills, we will use some external skills to do that project and then those people disappear. So they are more project or transaction related, and we use them for those reasons too.

Mr THISTLETHWAITE: If a lot of it relates to risk then, given the increased attention to risk mitigation and management, particularly in the big four banks, wouldn't it be better to have that service in-house?

Mr Elliott: You are right and it is. Don't quote me, but we have about 45,000 FTE and our risk team's about 1,500. It is probably one of the few areas that has been growing over time. And that includes compliance people. We have been investing heavily in terms of the nature of the people and training. It is absolutely right that we want to skill up there. What these independent parties do is exactly that—provide an independent review. So they are not actually doing the work for us. They are really coming in and saying: 'Have you set up processes that meet your regulatory requirements, the board's requirements, around your risk appetite and the kinds of things you want to do?' We use them as a third set of eyes over us.

Mr Hodges: Just for context: $20 million does sound a lot of money. It is a lot of money. But, in the context of our total bank costs, which are—

Mr Elliott: Nine and a half billion.

Mr Hodges: nine and a half billion, the $20 million is not a big number in that sense.

Mr THISTLETHWAITE: As to the retail network: you have been closing branches recently, and it was reported that in September alone you closed seven branches.

Mr Elliott: Yes.

Mr THISTLETHWAITE: Many of those are in rural and regional areas. Do you think that you are meeting your customers' expectations by closing branches in rural and regional areas?

Mr Elliott: I think we are. The reality is: why are we closing branches? It is because our customers have already made the decision for us because they no longer come to the branch. The reality is: there is a role for branches, and we understand that—particularly in rural and regional areas. What we've found, though, is that customers aren't coming to those branches anymore. If they are, they are tending to go into regional towns—the Ballarats of the world et cetera. People are coming and doing their banking there. To mitigate that and make sure that customers have good service, we're generally leaving ATMs in those towns to make sure that people still have access, and, like other banks, we have an arrangement with Australia Post that means that our customers can walk into any of the 3½ thousand branches in the Australia Post network and do their basic banking in there. We do make sure that we're offering alternatives for those customers.

Mr Hodges: Just to add the other side of it: we're investing in a lot of renovation and improvement in other branches as well. It's sort of been both sides of it. We've been investing in the network of branches to make them more fit for purpose in terms of what people are using them for today.

Mr THISTLETHWAITE: In your *The ANZ Way* document you set out your business strategy, and you've got quite a focus on your retail network. Doesn't that go against what you've got in your own documents—the closure of some of these branches in rural and regional areas?

Mr Elliott: We're really focused on our customers. Our customers don't want to come into branches. They really don't want to. They want to be able to get their banking done when it suits them, 24/7. They want to be able to do it on their phone or on the internet. They're looking for those services, so that's what we're providing. As I said, they're voting with their feet and their fingers. They're choosing these services, which means we have less and less volume in the branches. It's quite a remarkable change. Even if we think about things like cash—and I know we've been talking about cash from an AML point of view—the usage of cash in Australia is diminishing. People don't even use ATMs to the extent that they used to, because more and more they're using cards and mobile and internet solutions to make payments for things. And that's because they love the convenience.

Mr THISTLETHWAITE: Do you have plans to close more branches in the course of the next couple of years?

Mr Elliott: Yes, we do. The reality is we have plans to make sure we're responding to our customers' needs. I imagine that will mean fewer branches.

Mr THISTLETHWAITE: Just finally, I have some questions about the Sedgwick review. Are you going to fully implement all of those recommendations?

Mr Elliott: We're going to implement all that we can, yes. The one that's the most complicated is around third-party brokers, basically. The only reason for that is that it's hard for us to do it unilaterally. But we're working really hard with the industry, through the ABA, with our peers, and with the broking industry, to get that done. We agree with the intent; we've just got to work that through.

Mr THISTLETHWAITE: Is that recommendation 16?

Mr Elliott: I believe so. It's the last one.

Mr THISTLETHWAITE: The mortgage brokers?

Mr Elliott: Yes.

Mr THISTLETHWAITE: That's the one that recommends that banks cease the practice of providing volume based incentives that are additional to up-front trail commissions?

Mr Elliott: Yes. I can't remember the exact wording. Essentially, I think the industry's done a lot of good work, partly pushed along by this committee, to make sure through our own channels that we're really focused on good customer outcomes and that we're not incentivising poor behaviour. It's only reasonable that we would extend that through another really important channel, which is the broker channel. Australians increasingly choose to go to a broker, particularly when they're looking for a home loan—in fact, it's more than half the market today. It's only reasonable we should make sure that we have the same basic principles in place there to make sure that they are incented to provide good customer outcomes. Large brokers are aligned with that. I don't feel there is resistance. We've just got to work together to get it done.

Mr THISTLETHWAITE: If that's the case, why can't you commit to implementing that recommendation?

Mr Elliott: We can as an industry. If we do it alone, what will happen is we'll be out of business in that sense. As I said, we're a small player. We've got to get everybody aligned. The ABA is aligned to get this work done, and we're sitting down with the brokers. The major brokers I've spoken to—ANZ is different from our peer group. We do not own a broker. Most of our peer group do. But I don't see any resistance. It's just that we need to get to the table and work it through.

Mr THISTLETHWAITE: Haven't you just pinpointed the problem with the banking industry in Australia at the moment—that there's no competition on many of these issues? You don't move—

Mr Hodges: I think it's the opposite.

Mr THISTLETHWAITE: None of you move.

Mr Hodges: It's not putting ourselves at a competitive disadvantage, because the market is so competitive. That's where the industry itself has to get to the table and say, 'We know it's the right thing. We think it will be done.' The ABA's aligned around it. The devil's in the detail of how that's going to happen. Clearly it's going to affect thousands of brokers in the market too. As Shayne said, the aggregators understand and accept the principle here. It's about working through the detail.

Mr THISTLETHWAITE: What about recommendation 9—formally examining workplace culture and formal processes to redress any conscious or unconscious bias towards sales preference in customer service? Can you outline the process that your bank's undertaken to meet that recommendation?

Mr Elliott: I could do it at a high level but I'm happy to respond on notice about the actual program of work that we have around that, because we do have a program of work around that.

Mr THISTLETHWAITE: Do you use this balanced scorecard method assessing remuneration?

Mr Elliott: Yes.

Mr THISTLETHWAITE: To meet any of these recommendations in Sedgwick, can you inform us how that balanced scorecard approach has changed? In other words, how have the percentages changed in terms of moving away from sales to other factors on the scorecard that may be influential in determining whether or not someone gets a bonus?

Mr Elliott: Typically, our scorecards, whether it is in a branch network or is, frankly, the one that I have, will tend to be in four quadrants. There will be an element of financial to make sure you have your financial results. There will be risk. Did you manage the place well? There will be people, obviously, particularly if you're in a leadership position, to make sure you're operating a safe and healthy work place, et cetera. Finally, obviously, good customer outcomes. Depending on your role, we would weight those slightly different. If I'm the CFO, the weighting would look different than if I'm running the branch network. In the branch network, what we have done over time is push down the weighting on financials and increase the weighting on customer. So, now, more than half of the weighting is on good customer outcomes. You might say: what does that mean? We essentially survey—we use a system called net promoter system—to ask our customers. Literally, on a daily basis we survey them, whether on SMSs, emails and others, to say: 'With the experience that you had in the branch today, when you came in and you had you're A to Z review, you asked for a home loan or you wanted to talk to a planner, was it good enough that you would recommend that to a friend?' Out of 10, you have to get seven or above for that to be good. Everything else is kind of not. That's how we look. So that tends to be one of the lead metrics that a branch will get measured on—do people walk out of the branch feeling good about what they have experienced, rather than how many cars did people apply for today.

Mr THISTLETHWAITE: Can you tell us at the moment what proportion of that at-risk pay is in the financial category?

Mr Elliott: The way that that works is we look at the whole scorecard. The customer piece, as I said, is more than half in a branch. But we assess—

Mr THISTLETHWAITE: Sorry. So customer piece includes risk, people and customer together?

Mr Elliott: No; just customer. So that's more than half. I can't remember the weightings of the others to be honest. We can show it to you. Then we assess the overall performance. We balance all of those things. I will give you an example. There's not point saying, 'Great customer outcomes but hopeless on risk management.' So we balance them. We kind of score them. Then we assess on the overall basis: did this individual, this branch or this team deserve incentive payments or not? We don't say, 'You get an incentive for financials, you get a different incentive for people.' We balance it all out.

Mr THISTLETHWAITE: Have you made any changes to the actual percentage of pay that is at risk—so the overall total of pay that is bonus driven, if you like?

Mr Elliott: Not in any material sense most recently. I appointed a new head of what we call 'talent and culture'—or 'human resources' in older terms—four months ago. One of the primary things we're doing right now—and we've got a lot of people working on it—is exactly that review to make sure that we rethink what is the right balance between fixed remuneration and variable, and the nature of those. We're taking Sedgwick as a guide on a lot of those things but also just looking at best practice around the world. I would imagine the target is to do that work towards February, I think, as we're scheduled to sit down and actually make some decisions, and then take it to our board to implement next year.

Mr Hodges: I can just confirm that on the financial component, or the weighting, if you like, for all of business and private banking scorecards, it's under 33 per cent. So it's less than a third for all of the business.

Mr THISTLETHWAITE: I have just a final question. You mentioned earlier the importance of surveying. Do you survey your staff—

Mr Elliott: Yes.

Mr THISTLETHWAITE: to get their feedback about whether they would prefer to see more of their pay paid upfront rather than through a bonus—at risk, in other words?

Mr Elliott: We survey our staff on a number of issues. We survey them regularly around culture. 'Is this a place where you feel safe to speak up?' 'Is this a place where you feel you have opportunity irrespective of your background?' We do all of those things. 'Is this a place where the leadership role model our values?'

We do all those things. It's interesting you say that because I literally just approved a survey—I think it was last week—of our staff to actually understand what people think about the weighting between variable and fixed, what they would like to see, how they would value those things and what they think some of the risks are. We are actually going to be doing that in the coming months in preparation for this work we are conducting.

Mr THISTLETHWAITE: Will that be a first time for that?

Mr Elliott: It's certainly the first time during my time as CEO, which is not very long, but certainly in the last few years, yes.

Mr THISTLETHWAITE: Thank you.

Mr EVANS: Thank you all for being here today. I'm going to focus my questions on small business lending practices. We might start with unfair contract laws, if we can. ANZ and the other big banks recently sat down with ASIC and the Small Business and Family Enterprise Ombudsman and reached this agreement to remove certain unfair terms from your lending contracts with small businesses. That was in August. In a public statement I found, you have, quite forensically, set out exactly what it is that ANZ's committed to do in that agreement. There will be no more unilateral changing of contract terms, no more entire agreement clauses, no more using general material adverse change to default customers and so on. That has all taken effect as of August, which is a good outcome for small businesses. Thanks for that, I congratulate you. I want to ask a pretty fundamental question around that, though: do you consider that these commitments are consistent and in line with compliance under the unfair contract laws, or do you consider that you've gone above and beyond what's required by the law?

Mr Elliott: That's a good question. I will ask Graham to answer because Graham spent most of his time on this.

Mr Hodges: At this stage, I would say we believe we are absolutely compliant with the law. The law has been changing on this. I think we first provided our draft contracts to ASIC probably about this time last year. We've had some feedback on that through the course of this year, and we've made some amendments to those contracts as a result of the feedback from ASIC. It is moving a little bit and it has been moving. We think we've now landed that and we're looking to introduce those contracts at the end of this calendar year, in the sense of being formally finalised. But, as you noted, in our release at the end of August we said we'd apply those rules from 1 September so that, even though the contracts weren't yet out, we'd apply that to all of our customers anyway. At this stage we think this is a big improvement on where things were for the customers. I couldn't tell you exactly how far in advance of the required black-letter law it is, but we think it's good progress for customers.

Mr EVANS: I want to test something with you that's been put in some of the public commentary. I would say that the architects of that legislation—probably the parliament, looking at some of the debate and the explanatory memo and so on—would have considered that things like clauses that enable you to unilaterally change contract terms would always have been included as an unfair contract, in the sense of the spirit of that legislation. Those laws took effect in November, I think it was, of last year, which would have been a good nine months before this agreement was reached with ASIC and the ombudsman and when these changes took effect. I suppose the accusation is that the compliance has come late.

Mr Hodges: From our perspective, we've been working through and we actually had those drafts ready late last year. We worked through those with ASIC, we got feedback and we've been implementing those through the course of the year. As I said, there are quite a lot of changes to these contracts. We've not only had it for customers of up to $1 million in their borrowings but now up to $3 million in their borrowings; we've applied it to a wider pool, as well. We think it is absolutely within the spirit of what was expected from the law.

Mr EVANS: I'll touch on some of those thresholds. You're looking at individual contracts of up to $1 million and total loan facilities up to $3 million. That's good. That sounds like you're ahead of your peers, or most of them, in terms of the thresholds your applying and the time frames with which you've been able to roll some of these things out, certainly in relation to non-monetary default. Can I generally confirm whether you are or you are not looking at whether you can expand some of that work even further into say larger size businesses or different categories of businesses? I know there was some push back from the industry around the ombudsman's suggestion $5 million was an appropriate threshold.

Mr Hodges: I think there is still a difference there, to be honest. We have done the work and said that the $3 million threshold will cover 99 per cent of our customers, and I think a similar comment has made by other banks. The reason is once you get beyond that certain size you start to get into more complex legal situations for the companies. Essentially, they are both more complex, they are likely to have these structures and actually it means we need more protection. If we don't have that protection for these larger borrowings, clearly either there will be a higher cost of credit or the availability of credit will be affected by that. I think the industry has gone through this in quite a lot of detail. I know there has been a good debate with the ombudsman around this. I think as we get further benefits from technology over time, we might see that change. But, right now, I think the industry feels that is the right level.

Mr EVANS: Just to confirm, then, ANZ is happy with where it has landed on this and isn't immediately looking at going further?

Mr Hodges: That is exactly right. That is correct.

Mr EVANS: You have set out how nonfinancial default might still occur. There is, I think, a list of six specific exceptions that you have published.

Mr Hodges: Yes—nonmonetary defaults. Unlawful behaviour was one.

Mr EVANS: I just want to talk about one, failure to provide information—I think the exact words are 'failure to provides accounts'.

Mr Hodges: 'Financial accounts or information' I think is the one.

Mr EVANS: I was just after a bit more clarity around what that means and how it applies in practice? It is four or five words only. It might be fine or there might be more to it. I guess I see some potential for ambiguity.

Mr Hodges: If we ask you as a small business 'Would you provide us with a copy of your financials?' and they refuse to do that, you have got a position where you don't really know what is going on in the business. I think what we have asked there is not that it would be a specific nonmonetary default immediately, but we would give them notice of 30 days that we wanted to have that information or there is a possibility for us to then default. For that one, we effectively are saying, 'You have got notice that we need that and we would like to have that.'

Mr EVANS: I suppose I could envisage that there is a spectrum of possible cases there, everything from you making a very specific finite request, very reasonable, all the way through to repeatedly requesting a fair bit of information from a small business customer that is unable to easily comply—fishing expeditions. I am not suggesting it is your policy.

Mr Hodges: That is not the intent.

Mr EVANS: Have you put more flesh on the bones of what the exception is?

Mr Hodges: I don't think we have, but I think the issue around that is what is the reasonable behaviour of the bank in terms of asking for that. I will ask our teams are we prepared to do anything around that.

Mr EVANS: I think that would be useful. Lastly, in your opening remarks you talked about the new code of banking practice, due to be finalised by the end of the year. I think Westpac took it on notice but I will ask you guys in person: can you tell us more about the ways that that code might in practice apply to small businesses?

Mr Hodges: First of all, I think it will cover a slightly wider group of small businesses than does the current code. Secondly, the language that is going to be used in that is plain English. We are looking to have an online version so you have a search capacity. If you go in as a small business, it will bring up the clauses in the code which are relevant to you as opposed to the whole thing. It gives a more targeted view. We are looking to implement that. We are picking up some of the Carnell recommendations such as 90 days' notice where we are not intending to continue with the loan, as was the recommendation. Also, there were recommendations from Carnell around providing copies of valuations or investigative accounting reports to the customer, so that will be picked up in that too. I think from that point of view it will be of benefit to small business with those extra clauses in there. That sounds promising and we look forward to it.

Mr KEOGH: Thank you for coming along today. I suspect you paid a bit of attention to the Westpac hearing earlier today. Can you take me through your decision-making process around deciding to remove fees to non-ANZ customers when using your ATMs?

Mr Elliott: Sure. I may have mentioned this before at one of the previous committees, but when I took over as CEO we did a range of focus groups. In most capital cities we talked to customers and also conducted a lot of research trying to understand what issues were out there. Frankly, I was surprised that, top of the list, the number one issue that people raised was these ATM fees. So we went back and looked at my team—this was well over a year ago—and talked about what the options could be there, because it was clearly a pain point. It wasn't a significant revenue generator for ANZ, and what could we do about?

So we embarked on a series of work to say what could different models be? The one that we were worked on, and which got a bit of press recently, was what we call a utility model. It is pretty common in parts of Europe. It would say that rather than going to the local shopping mall and having a bank of all sorts of different coloured ATMs, there would be one ATM. There would be an industry, and when you stuck your ANZ card into it it would come up blue, and if you put in your CBA card it would come up yellow. That would be a cost-effective way of us doing it as an industry.

We did the ground work on that, spoke to some of our peers and tried to get an industry solution to get a better way to eliminate these fees. We were working heavily on that. In fact we had to engage with the ACCC to make sure that everything was going to be done on a legitimate basis. We had done the work and were pretty close to pushing the button on that when CBA made their announcement. So we followed. We didn't want our customers or our network to be left behind, so we acted.

Mr KEOGH: Given that, from what you've said, over a year ago you started heading down one path to have a utility model, as you call it, how was it that you made a decision to cancel the fee within hours of CBA's decision?

Mr Elliott: As part of that process we discussed it with my board. At least twice we presented them with the options. One of the questions from one of our board members, quite sensibly, was whether we could go alone. We looked at that and had to run through a whole bunch of scenarios of what customers would consider et cetera. It was an unusual circumstance. We were prepared; we had looked at all the scenarios; we had all the information available. So making the decision wasn't that difficult. We were confronted with a competitor who had done something, so we were able to act really quickly.

Mr KEOGH: So in that context, where you had even had the board discussion before around the negligible loss in revenue from getting rid of these fees, and you thought you had found another model and you could conceivably get rid of the fee, and you had come to that view at an earlier point, why didn't you get rid of the fee at the earlier point?

Mr Elliott: I would love to have been first. I have gone back to my board. My learning here is about speed. We should have pushed harder and I should have pushed harder to get that done. Yes, I would like to have been first to say that we were leading the industry.

Mr KEOGH: Pushed harder with who?

Mr Elliott: Ourselves and our peers, to get coordination and get that solution. Perhaps we should have been more courageous. I ask myself that question in front of our board. Maybe I should have been courageous and just done it, and worried about the utility and the delivery model later. That's what I've learnt.

Mr KEOGH: On the delivery model, now that all of the banks have gone the route that they've gone down, there seems to be negligible utility in having those banks of four ATMs sitting next to each other in each mall and every corner.

Mr Elliott: Exactly.

Mr KEOGH: What happens? Is it now the race to get rid of your ATMs to reduce your costs so that someone else's bank is the last one standing on each corner?

Mr Elliott: I mentioned the amount of game theory you can go through to see what that might be. I still think there's an opportunity—

Mr KEOGH: I'm not interested in the game theory as much as what you are going to do.

Mr Elliott: We are going to still work hard on this utility model. I still think there's an opportunity for that, which is a better outcome for customers. We could end up with better ATM access across the country, and shared. So we're still working on that. But as a result of this I've also asked my team to go back and consider what the options are here and what we can look at doing. It's worth noting that we have about 2,400 ATMs that have an ANZ brand on them. Nine hundred and seventy-five of those sit in an ANZ shop or branch, and the rest sit in the shopping malls. Those numbers have been coming down because, frankly—one of the other reasons for the changes—people use ATMs less and less. I think the ATM usage is falling at about four per cent per annum.

Mr KEOGH: Given those two factors—the costs of managing the network are going up because you've got fewer ATMs, fewer transactions—and given, as you said, you've asked the team to look at the options, I presume one of those options is reducing the number of ATMs you've got.

Mr Elliott: Yes, possibly, but let's remember why we have those banks of ATMs at the local shopping mall. It's to service ANZ customers. We don't fish for—

Mr KEOGH: Which made sense when they would get charged a fee for using another bank's ATM, but now they won't be.

Mr Elliott: I agree with your proposition. It's absolutely reasonable and sensible that you would expect, as a result of this—the utility, or value, of those things has fallen—that there will probably be fewer ATMs in the country as a result. What we've got to make sure of is that there's still a decent footprint that services customers' needs.

Mr KEOGH: You raised this point. What sort of response did you get out of the ACCC about these sorts of discussions being entered into between the banks about a coordinated approach to ATM placement?

Mr Elliott: We're really conscious of our responsibilities around competition et cetera. The conversations with the ACCC—and, look, they've only just kicked off—were really more about the fact that we're not the only people who run ATMs in the country; there are third-party providers who run a different economic model. We were obviously making sure that it was fair and reasonable from their perspective as well.

Mr KEOGH: In looking at removing these fees, was part of the driver that you don't exclusively kill but almost kill that third-party model?

Mr Elliott: No. Honestly—and, again, you're welcome to look at our own papers on that—that wasn't even discussed in any of the proposals we looked at.

Mr KEOGH: Is it a likely impact?

Mr Elliott: To be honest, I haven't really given it any thought. I think it's possible but, on the other hand, with a lot of these third-party networks the service they operate is by having ATMs in different locations that are not serviced by banks.

Mr KEOGH: So is the flipside that if the banks start reducing the number of ATMs that are available, on the basis that people use them less and also, in theory, your customers can now use another ATM, we may now see a proliferation of these third-party ATMs, where people are not going to get a $2 fee but will have to pay a $4 fee as a consequence?

Mr Elliott: It's a possibility. I don't know. I'm not for a minute suggesting that ANZ ATMs are going to disappear and we'll just tell our customers to run down the road to CBA. The reality is that our customers still look for blue ANZ, and that's great. They vote for team blue and they want to use our ATMs, and we service them in that. Remember that our ATMs all do different services, actually, so there's a value in us still providing it. But I take your point that the competitive dynamic in the market has changed and therefore there will be an impact. We have to see what that will be.

Mr KEOGH: Could I turn to the bank bill swap rate. I understand, from reports, that ASIC has tried to reach some sort of settlement agreement with the banks that are involved in that case and that to date those discussions haven't gotten anywhere productive. There are a number of people in your own team, or who have been in your team previously, who seem to have been potentially caught up in this case. I'm interested to know whether ANZ have looked into the involvement of people such as Steve Bellotti, who was the managing director of global markets, Eddie Listorti, who was the co-head of fixed income, currency and commodities, Richard Huston, who was head of markets, and Ben Gulliver, who was head of credit trading and syndicate—those people specifically—and then what you have looked at in terms of their involvement and the capacity to claw back any bonuses or incentive payments that they may have received.

Mr Elliott: This is still subject to discussions with ASIC. We don't agree with their allegations. We're trying to reach a settlement, as you quite rightly point out. But we've conducted our own internal investigation into those things. Except for the last name there, which I can't recall, it's worth pointing out that those other three no longer work for the bank. Every year, during the year, whenever there are any deferred incentive payments, before they go out the door from ANZ, we have a clawback committee who review them to see if there are any reasons why any of that should be withheld. That process has been undertaken. I literally don't know, in the case of those three names, but we go through a pretty thorough process, and if we felt that there was wrongdoing or any reason to withhold it would be in our interest to do so and we would have done that, we would have clawed back.

Mr KEOGH: I'm familiar with an organisation that used to run ethics courses internally. They'd set out a scenario of some certain unethical behaviour that had happened, and the person running the course would always finish it with the phrase 'and that person no longer works here'. You just used that phrase. Is there a connection between those people no longer working for ANZ and the case that's been alleged by ASIC?

Mr Elliott: Not directly. I don't want the committee to walk away suggesting that those people lost their jobs as a result of the BBSW case. We take into account all sorts of things. Some of those people left of their own volition—in all four cases, I think. We take all of those things into account.

Mr KEOGH: Did any of them have bonuses or incentives that were denied to them?

Mr Elliott: I believe that is the case, but I'd have to get back to you on the details of that. It was some time ago they left the organisation.

Mr KEOGH: Can you let us know with those?

Mr Elliott: Sure.

Mr KEOGH: Also, as a general proposition, if this case goes to hearing and ASIC is ultimately successful, would there be people who are still in the bank, or who may have left the bank, from whom ANZ would be looking to claw back bonuses or incentive payments that those people may have received?

Mr Elliott: It's an interesting question. At a high level, if, through that process, we receive new information about activities of people at ANZ and we, as a result of that new information, change our view about their performance, would we look at a clawback? Absolutely, we would. Would we think about dismissal of people or changing promotions? Absolutely. But that would assume that there was new information that came to light during the proceedings. It's a bit of a hypothetical question. We certainly would not ignore the outcome of such a case.

Mr KEOGH: I think you may have answered my next question, but I want to put it to you anyway. If, then, ANZ settled the proceedings with ASIC and was able to do so on the basis of not making any admissions of wrongdoing, or contraventions, it's not anticipated that there would be any further clawbacks or actions being taken against ANZ employees—

Mr Elliott: Again, you're asking a hypothetical. It's possible. It would depend on the nature of what any settlement was and what was required of us as part of a settlement.

Mr KEOGH: And also, presumably, that ASIC brings some information that they haven't already made you aware of to the table.

Mr Elliott: Yes. Again, we're talking hypotheticals here.

Mr KEOGH: Well, it's not hypothetical. What you said to me was if you had new information that came out in the course of a trial where ASIC was successful, yes, you would claw back. But the implication of that is that you wouldn't unless you got that.

Mr Elliott: We have our own view of what happened in terms of any kind of breakdown in process or procedure, or poor behaviour or misconduct—whatever words you want to use—from ANZ's perspective. We've done thorough investigations of that. We've satisfied ourselves in terms of the outcomes and there has been consequences to things we have found. I think, famously, because of that investigation, we uncovered some other misconduct that came through in markets and we dismissed people and we did so publicly. As we receive new information, we act.

Mr KEOGH: ANZ people—not you personally—will have bonuses vesting in November. Are there any of those potential bonuses affected that now won't be vesting because of things that you've uncovered in the course of dealing with this case?

Mr Elliott: Not to my knowledge. We have a lot of people at the bank. There's a list of equity and deferred comp that vest in people now-ish, and we're going through the process of approving and making sure that those things should still take place. I'm not aware that any of those individuals are receiving any, but I might be wrong. I'd have to go back and check.

Mr KEOGH: You can take that on notice.

Mr BUCHHOLZ: I want to start with a comment that you made just then. When you first became the CEO, you went and did some focus groups. My line of questioning today will be in and around the credit card space. You said ATM fees were up there. Were credit card interest rates up there, in the focus groups?

Mr Elliott: No.

Mr BUCHHOLZ: They were quite happy to pay?

Mr Elliott: I don't know that they were quite happy! It's interesting. It's one of those unprompted things, if you sit down and ask people, 'Hey, what do you think about banks and what upsets you?' No, they did not raise the rate of credit card interest. To be fair, I know some of your interest in previous questions has been both about individuals and small business. But the focus groups I did tended to be individuals, so they weren't necessarily a problem.

Mr BUCHHOLZ: So you were the first to move, of the banks, in that space.

Mr Elliott: Yes.

Mr BUCHHOLZ: Congratulations to you and ANZ for that move. Can you share with the committee how your clients that have migrated are finding the rate?

Mr Elliott: Let's just remind ourselves what we did. We took an existing card product that has a lot of customers and a lot of borrowing in it and we cut the rate by 200 basis points. That's a two per cent cut. That puts money back, into people's pockets, from day one—as opposed to our peers who have launched new products, who have no customers, and require people to shift to them. We had a slightly different approach. Interestingly, we haven't seen that low card suddenly have lots of people apply for it. You might ask why, because it is a really good deal. The reality is that when people come and apply for a card, a lot of them don't imagine they will be borrowing. And the interest rate, interestingly, is not the primary driver of what they're interested in. The annual fee is really important, and they do think about rewards and other things. So it's not always top of mind.

What we've got to do is make sure that when people do end up using it as a borrowing facility they're in the best product for them and not paying rates they shouldn't be. We have been working on some technology to nudge people we notice who might be having a reasonable level of credit card debt, making sure they're not in those high-rate cards. Those cards are really for when you need a bit of money for a short period of time. But if people are sitting with a solid amount, we can move them to a more appropriate product.

Mr BUCHHOLZ: You mentioned earlier on as well, in your lines of response, that you had a somewhat sophisticated way of communicating with your consumers, with SMSs for some of them and others where you get virtually instant feedback. Is there any feedback from clients on the getting of a two per cent reduction?

Mr Elliott: It's a good question. I haven't asked that question. I have tended to focus on whether customers were choosing the product, and there was an uplift, when we first announced it; there was a bit of a tick up and people liked it. But I'd have to go back and look and suggest—

Mr BUCHHOLZ: I can forecast what the response would have been if you had put rates up two per cent.

Mr Elliott: Sure; that's fair.

Mr BUCHHOLZ: Three out of the four banks have now moved in line with the committee's suggestions of lower rates on credit cards. And, within one day, on the ATM fees, you all moved. Do you have an understanding as to why we haven't seen the group move more collectively and why we've got one bank still to make any announcements in that space?

Mr Elliott: I don't, actually. All I know is we come to work every day and work in a competitive environment. We watch like hawks what our competitors are doing and we don't want them to get any advantage over and above us, and we are always trying to figure out how we can get an edge and do the best thing we can for customers. But I don't know.

Mr BUCHHOLZ: You also spoke about, in previous comments and just before, wanting to make sure your client is in the best product you can get.

Mr Elliott: Yes.

Mr BUCHHOLZ: What is ANZ doing in that space to migrate internal clients to a lower rate? You have products with a higher rate, and they're very similar products, and external clients.

Mr Elliott: That is a good question. What we've tried to do is simplify our portfolio of products. We really just want to have three cards: a low rate card, a card that has low fees, and that's primarily for people on lower incomes, and people on lower incomes like that one; a low-interest rate card, the one we were just talking about; and the bells-and-whistles card that people like because they get frequent flyer points and insurance and all those other things. Now, essentially, we have the three. Then we focus on making sure that people are in the right product. When they come into an ANZ branch, we've been training our staff to push people or to suggest the right product for people—so, if they want a credit card, to make sure they're not choosing the bells and whistles card when they don't really need it. And then what we're doing is we're looking at the way they use it, so we use data to then say, 'Hey, look: the way that Alexis is using her card would suggest she'd be better off over in this one—it'll save her money.' We're only in the early days of being able to do that analysis, and then we would talk to you about moving cards.

Mr BUCHHOLZ: External clients? How do you chase them? If you're 200 points in front of a competitor who's out there in the market and hasn't moved, why are you not making hay while the sun shines? You have competitive advantage in that space.

Mr Elliott: We do, so we use that, obviously, through advertising and other things. But, as I said, surprisingly—and the research shows it's not unique to Australia—when people are choosing a credit card, that headline interest rate is not the primary driver of their decision.

Mr BUCHHOLZ: It's interesting because, as I said, I can forecast what their reaction would be if you put it up two percentage points.

Mr Elliott: Yes.

Mr BUCHHOLZ: I think that'll do. Thank you very much for what you did in that space.

Proceedings suspended from 14:50 to 15:00

Ms MADELEINE KING: Thank you all for coming in today and appearing before us. You said earlier that you'd paid attention to today's session with Westpac. I'm probably going to go through the same questions, so there's a bit of an advantage for those who appear second! In relation to the maximum deposits into machines, Westpac has a $4,000 limit, you have a $5,000 limit—

Mr Elliott: Yes.

Ms MADELEINE KING: and we know that CBA has a $20,000 limit, which puts it in a different area of risk. Do you have any insights, considering that ANZ and Westpac are quite different to CBA, into why that would be the case?

Mr Elliott: I don't. We rolled out the machines in about 2011—roughly at that time. Essentially, the machines we're talking about are intelligent and capable of doing more things. You might remember you had to put money in an envelope with a slip and stick it into the old ATMs. With these ones you can just put money in. The machines can tell whether it's counterfeit, what the denominations are et cetera, so they're pretty effective. But we did a risk assessment. We said, 'We understand our obligations around money laundering; how do we mitigate that, do the right thing and provide good utility to our customers but make sure we're not going to have any problems about suspicious transactions?' We ran that and came to the conclusion that $5,000 was about right. Part of it was also an assessment of what our customers were doing. To be honest, we don't get a lot of people coming in with more than $5,000. We felt it was a nice balance between the two. But I can't comment on why somebody else came to a different conclusion.

Ms MADELEINE KING: Did ANZ use the same intelligent deposit machines as CBA?

Mr Elliott: To my knowledge, they're not the same actual machines, but they have the same capabilities or very similar.

Ms MADELEINE KING: Regarding the ATM fees, as we know, CBA went first on announcing they wouldn't charge for other bank customers to use their machines.

Mr Elliott: Yes.

Ms MADELEINE KING: My understanding is that they ceased charging fees straightaway. We heard from Westpac earlier that it took a couple of weeks, and I think ANZ was the same.

Mr Elliott: Yes.

Ms MADELEINE KING: Is there any reason for the delay, given that you said earlier that ANZ had thought about this quite a lot?

Mr Elliott: It's just technical. We literally have to go to all of the ATMs, or do the programming—change the software. We hadn't prepared for that, and obviously CBA knew they were doing it and could get that done.

Ms MADELEINE KING: So it's the same reason as Westpac.

Mr Elliott: Yes, but we wanted to do it as quickly as we could.

Ms MADELEINE KING: I do acknowledge your earlier comments that, having your time again, you might have gone harder on that and gone first.

Mr Elliott: Yes.

Ms MADELEINE KING: I look forward to seeing what you might go first on, given the opportunity in the future. I want to go back to the contactless card things. I was thinking I could maybe talk to you about this offline, but, given that we've raised it already with Westpac today, it's only fair to keep it online and in the record of this body. I just want to understand and be clear. Can a shop owner selling a product come to you at ANZ—and I don't mean to repeat what the chair said, but I'm just trying to be clear—and request, with a bit of work and whatever fees you might charge for it which wouldn't be unreasonable, to change from a Visa-Mastercard payment system to the EFTPOS payment system?

Mr Elliott: Yes. Essentially, that merchant has an option. First of all, they don't have to take either; they can just say, 'We only take cash.' But they want to have the ability to take all sorts of payments from customers. When we install those little terminals—the little machine thing on their desk—they can talk to us about the defaults. With all else being equal, if there's one of those hybrid cards, what would it default to? I'm not an expert, but my understanding is that, yes, they can choose that. What I do know is that, if they ask us, we will enable that default to change.

Ms MADELEINE KING: You've come around to what I was trying to clarify. The little machine that you get, if it has as its default EFTPOS, does that mean that the ultimate consumer, the purchaser, me going into the shop to buy something, can only use a payment system that's EFTPOS?

Mr Elliott: No. Those machines by and large are pretty smart too. They will know the card that is presented. If the card is swiped or inserted—you get the little option that says 'credit' or 'debit'—that defaults differently. If it's a debit card, it will go through. My debit card in my wallet doesn't have a Visa thing on it, so that would go through my EFTPOS. If I give it a credit card, it will go through Visa. We are really talking about those cards that are somewhere in the middle, where they look like a debit card but they have a Visa chip or a Mastercard—

Ms MADELEINE KING: Say you've got that one—

Mr Elliott: Those ones, if you insert it, you can choose—

Ms MADELEINE KING: You can choose savings—

Mr Elliott: The real issue is the contactless ones. So, at the moment, 99.9 per cent of those default to go through the Visa rails.

Ms MADELEINE KING: Yes.

Mr Elliott: Therefore, the merchant in most cases, not all, end up paying us a little higher.

Ms MADELEINE KING: Sorry to labour this point I just think we should take the opportunity to make it clear. So a merchant says to someone, so they get it done really quickly, they want the underlying transaction sales system to be the EFTPOS one. I use my hybrid card which has a Visa or Mastercard, but I have also linked it to my savings account so I could EFTPOS it. I tap it. The underlying payment system is EFTPOS. Where is the money going to come from—my credit account or my EFTPOS?

Mr Elliott: No, EFTPOS will only come from your savings of your bank account.

Ms MADELEINE KING: Because that is the underlying payment system that the merchant has chosen to use.

Mr Elliott: Correct.

Ms MADELEINE KING: I understand. Thanks very much for that. Perhaps there are other forums to get this out but it is good to get it out nonetheless. I have got it clear in my own head now; hopefully, others do now as well. Again, for ANZ it's a benefit, however minor; it would be better for you to have it running through the Visa or Mastercard system?

Mr Elliott: To be honest, I don't know that we have ever looked at it in forensic detail. What we want is more consumers choosing payment devices that we provide and we want more merchants banking with us. I think today people expect choice, so we provide whatever our consumers and our merchants want. The profit motive, if you will, is not changing the way we do it or what we offer our customers. We want to offer them whatever we can. That's why we offered Apple Pay, Fitbit Pay, Android Pay and Samsung Pay.

Ms MADELEINE KING: Yes, I have just seen the Fitbit Pay.

Mr Elliott: Yes.

Ms MADELEINE KING: That's dangerous but interesting. I will move on from that. But thank you for your answer. In relation to the government's proposed BEAR—banking executive accountability regime—the government recently put out the legislation and conducted a week-long review of that legislation. I'm just wondering: do you have a view as to whether that consultation period was long enough? What do you think of that?

Mr Elliott: I guess with anything like this it is complicated to some degree—not on the face of it; the principle we agree with. We are now getting into the detail of how it is going to work. How do we think through some potential unintended consequences? I would say, as a general rule, that more time would be useful on those things. We understand the government has an agenda and wants to get that done. But we would have liked more time.

Mr Hodges: To be fair to Treasury, they did contact us earlier—

Mr Elliott: That's true.

Mr Hodges: I think I was offshore at the time but I dialled in for meetings, and people were in the rooms and they had meetings around some of the general principles and what was going on. So, while the formal consultation period was relatively short, there had been dialogue with Treasury in the period leading up to that too. What arrived on the day, if you like, as the draft legislation was not dramatically different to what we were talking about I don't believe.

Ms MADELEINE KING: So there were not too many unexpected surprises. My last line of inquiry—and I asked Westpac this earlier—how long do you spend preparing for these inquiry appearances?

Mr Elliott: It's a lot. Obviously, the first one was probably the most, particularly because I was new to the job and it was like an accelerated MBA program for me, learning a lot about the bank.

Ms MADELEINE KING: Was it as expensive?

Mr Elliott: Good question; no. I would say, if you added it all up end to end, it wouldn't be a week but it'd be close. It'd be three or four full days. It is pretty intensive actually because we want to show that we are over the content and we want to be prepared so that we can answer your questions.

Ms MADELEINE KING: How are you finding the whole process of this?

Mr Elliott: I think from the beginning we understood the intent was to try to make improvements in the industry. I think it's fair. Where there have clearly been some failings in the industry, I think the public and the community have a right to hold us—and me, as the chief executive of a large company—to account; I get all that. I think that has been useful. I think we've had an opportunity to be heard and to make our case, whether people agree with it or not, so I feel it has been fair. I think we pretty much agreed with the 10 recommendations, more or less, and I'm not just saying that because we have to. To your credit, the industry has taken on those things and we've got some stuff done, which is to the benefit of the community overall. So I'd say it's good.

Mr Hodges: Shayne may not thank me for this comment, but—

Mr Elliott: Then don't make it.

Mr Hodges: But this is the House Economics Committee, and we can provide insight into some broader conversations around what's happening and what are the issues facing Australian consumers and businesses and things like that. I think the committee could take advantage of the experience that we have. I think there is a point where the value of that may be something that the committee spends a bit more time on, to be honest.

Ms MADELEINE KING: Personally, I've found being on two rounds of this an interesting experience. But it shouldn't be about what is interesting for me, of course. I can think of something more useful for the ongoing sustainability and enhanced reputation of our banking sector; I'm not going to argue about this, but we support a royal commission into the banks. Obviously, some banks are in a worse place than others. CBA is obviously a primary concern, given the recent money-laundering activities. Can you see any utility in a royal commission?

Mr Elliott: It's hard to know exactly what the benefit would be. We've had a number of views, including those of this committee. We've had all the reports—the Khoury, the Sedgwick, the Carnell et cetera. They focused on—

Ms MADELEINE KING: But still we see these problems.

Mr Elliott: They are pretty recent and they've recommended real action, which we're doing. For ANZ and the industry, I believe we can stand here today and say that the conduct and the operation of the industry today is better than it was in the past and we're making real progress to restore the community's confidence and trust in our system. We have a very, very important role to play in the economy. I think that should be our primary focus. Yes, we should fix all these things. I personally believe that a royal commission would be distracting.

Ms MADELEINE KING: Do you think the banks have restored the confidence of the Australian public?

Mr Elliott: Not enough, but I think we're on the path to doing so.

Ms MADELEINE KING: Thanks very much.

Ms BANKS: Thank you for joining us today. First I'd like to go to the AFCA. Indeed, in the last reviews there was much discussion about cutting through the churn in the best interests of Australian consumers so that consumers could avoid having to engage in litigious action or lengthy, protracted mediations. The government is getting things done with respect to our one-stop shop. Do you support the principle that the one-stop shop will benefit consumers and small businesses?

Mr Elliott: Yes.

Ms BANKS: If so, how? Have you seen any ways that it has currently that you could elucidate on?

Mr Elliott: I will ask Graham to comment on that because he has spent a bit more time on this than me, but I think we support anything that makes it easier, simpler and of lower cost for people to raise concerns and get them resolved. That's in our interest as much as it is in that of our customers, so we support that. I think it's fair to say that some of the other processes have got too complicated, particularly for consumers. So we support that.

Mr Hodges: We haven't actually seen it roll out yet. It's proposed. We haven't seen the final report. As Shanye said, we are supportive of it. In the meantime, what you have seen the industry do, as part of the ABA six-point plan, is that all banks have consumer advocates. We have had one for 14 years. As well, what we are seeing is that focus coming around dealing with consumer issues quickly but also in a low-cost jurisdiction. Actually, we've always been an advocate of the banking Ombudsman. We felt that that model was working well. We think the new model will pick up the strengths of that and widen it out into one regulator or one place where customers can go. Actually, as long as we pick up the strengths of what we've already got and build on that, we would be very supportive. I think that is what we will get when we finally see it.

Ms BANKS: Great. Do you agree, therefore, Mr Hodges, that this one-stop-shop tribunal is much better and much more palatable for a consumer because it delivers immediate outcomes and recompenses aggrieved consumers, versus a protracted royal commission that will not have any direct impact for consumers, potentially, for years to come?

Mr Hodges: Put that way, yes, we would agree. We haven't seen the operation of the one-stop shop yet. In terms of remediating and dealing with issues, absolutely that is a better way to go.

Ms BANKS: I would like to go to recommendation 7 in regard to CPS 220. The ANZ responded to that more extensively than the other banks. In response to recommendation 7, you refer to the efficacy of CPS 220 and you stay loyal to it. But in line with APRA's requirements, the banks must independently review the risk frameworks every three years. Do you think that is sufficient? Do you think that is regular enough given the current environment?

Mr Elliott: I do. I can understand why people would ask that question. We've only just had the first review. It is a really good step. It is great actually and it has provided really good feedback for us just to remind ourselves. That review is third party, where somebody comes in and looks at our framework and benchmarks us not only against local banks but also best practice internationally. That is really useful data and it is quite in-depth. The reason, I understand, for the three-year time frame is to give us reasonable time. Because you are talking about frameworks that need to be embedded in policies and processes around the bank and training, it gives us time to implement those things. It's a big undertaking.

Mr Hodges: And to see outcomes from it.

Mr Elliott: Yes. But if people decided it should be every two years or something—I'm not sure it is something that should be done every year. Because of the size and scale, I think we'd spend all our time reviewing and not enough time doing. But it has been a good process.

Mr Hodges: The BEAR is going to lean on that a bit as well. Because of the review that is required as a result of that around accountabilities and how the organisation works and where everyone points into, that will lead to some further tweaking, I suspect, of how that will play out in the organisation and who's going to be accountable and what the implications will be et cetera. I think BEAR starts from July next year, which we will be ready for. Over the next 12 months from there, we will start to see in practice how that's playing out. I think there's plenty of change happening through that space.

Ms BANKS: Could you explain about the quadrant system of review, which you alluded to earlier, in terms of people and culture and customers. You said that the customer quadrant is more than half.

Mr Elliott: For the branch network, yes.

Ms BANKS: Could you explain how that works and how you cascade that through the organisation, and how it is part of your risk governance framework?

Mr Elliott: The balance scorecard has been around as a management theory for probably 30 years. It came out of the United States from a famous professor. It is the idea of moving away from narrow incentives which have unintended consequences. How do we get balance into it? It is well thought through. We have those four quadrants. What we do is we start with the board—and we're doing it as we speak—who sit with me as the chief executive and we agree what the balance scorecard should be for the group: what are the things that we are trying to achieve? We try to get a balance between the four quadrants, and then there is one other aspect that we look at.

We need to run the bank well, and we also need to make sure that we're making strategic progress to make improvements in the long term for the benefit of our customers. There is a balance.

We go through those metrics, we have a pretty broad discussion at the board level about how we would define success in each of those quadrants, then we articulate that through some high-level principles. Then we look at what some metrics would be that would indicate that we're making progress against that. What we want to avoid is a narrow, formulaic score card that says there is a bunch of metrics and if you achieve them somehow you win. We said, no, that's not right. We need to look at data to inform our judgment, but it is ultimately a judgment, because the environment changes and management needs to respond to that. That's what we do: we take it, we agree those—we're just doing it at the moment—then we would cascade it to the various business divisions and our support functions—the Australia division, finance, risk, people, whatever; then they take the relevant pieces of that and refine and potentially add to it, with my agreement as the CEO. I sign off and say, 'Yes, that's what I'm asking you to do.'

Ms BANKS: That's helpful. How regularly does the organisation go through that process?

Mr Elliott: We do the score card once a year. We look at the actual metrics. It's fair to say that we're maturing in our approach to this. With the board, we learn what's working and what's not working. We do it once a year and then cascade that through.

Ms BANKS: So the results of that are ultimately reported to the board. It's cascaded through the organisation and then reported to the board.

Mr Elliott: Yes.

Ms BANKS: In the context of that risk governance process, if the BBSW case were to occur now, and you have that process in place, where does it fit?

Mr Elliott: That is an interesting question. At the moment, while we're thinking through what the score card would be for next year, we are also assessing how we went over the previous 12 months against that. To give a bit more detail to that: I will evaluate those quadrants with our chief risk officer, our chief financial officer and our head of people. We will write a report and say this is what we have looked at and taken into account, and this is our assessment of performance. In that case, if something like BBSW happened tomorrow—I am imagining here—that would come into the way we have assessed risk. One of the metrics about being well run from a risk perspective is whether we meet our regulatory requirements, whether we conduct ourselves well, whether we're improving our reputation et cetera. Those are the things that would come into account, absolutely.

Ms BANKS: In terms of reputational risk, which you referred to, where in that structure would you identify reputational risk such as the pure employee misconduct element?

Mr Elliott: It comes through in a couple of areas. One will be in general in our risk category. The risk one is the most important. In fact, in the way we structure our score card it is a bit of a gateway. Our businesses have to be well run from a risk perspective before we look at the other areas, as I mentioned before. You can't say, 'I did great on customer but hopeless on risk.' There are no trade-offs there. Being well regarded from a regulator's point of view et cetera and making sure we meet all our obligations would be in the risk piece. The broader issue around reputation, in the broader sense of community reputation, reputation with other stakeholders, government, shareholders et cetera, we would have in our people and reputation quadrant. We use external review. There's a corporate confidence indicator survey; we use Glassdoor; so we use third party metrics to inform some of these things.

Ms BANKS: Finally, recommendation 7 requested an independent review that would then channel into APRA. As the ANZ, with that description of a quite robust risk management framework beyond APRA and ASIC requirements, would you be prepared to review that, in terms of that recommendation saying that an independent third party should review the bank's risk management processes on, say, at least an annual basis, for example?

Mr Elliott: We have no issue with having third-party reviews. They have a role to play to give comfort, particularly to the board, that management has designed the right structures and frameworks, so I don't have an issue with that. I think the question here is about the value of a further review, given that we already have independent audit, the CPS 220 and other factors. The question is: would this just cover old ground or could it be additive? Obviously, I watched the discussion with Westpac this morning, and I am open minded, at ANZ, to say that, if we consider it's additive rather than just replicating things we're already doing, I don't have a general issue with it.

Ms BANKS: That certainly is behind the intent of that recommendation.

Mr Elliott: I know that's your intent, sure.

Ms BANKS: It would have an additive component to it. Thank you.

Mr HOGAN: I would also like to start by acknowledging your openness in this process during the multiple hearings we've had, because it has all been different with different institutions. I want to follow on from the member for Burt and some of his questions earlier. I also went down this line with Westpac, and you may have seen it. With ATM fees, I acknowledge again that you've said that you ran with that, if you like—you were in the process of doing that but were looking at getting industry agreement on how you would solve some issues there. And then, god forbid, a competitor went early on you—who would have thought that would happen! I do want to go to that, because, as a regional MP, when I heard that, the first thought I had was: what does that mean for ATMs, especially in remoter communities? Given that you were looking at a solution for that—about having shared ATMs—will you give a commitment that you won't withdraw ATMs, either yours or industry's, from remote and rural communities?

Mr Elliott: I'm not sure I can give that commitment. As I said, the reality is that people aren't using them like they used to, so I also have to think about that. You're right to raise that question. I did watch you, and you nailed it in terms of the risk that presents itself. That's not our intention, and that's why we were looking at a utility model, a shared model, so we could sit down together and make sure that, as an industry, we were giving access to banking to all parts of Australia and doing it in a cost-effective way. That is still our intent. We will still push and work very hard to make sure that is the outcome.

Mr HOGAN: I hear that, but, as a practical example, for some of these—while the marginal cost can be different, there is still a cost for you with the ATM network in some of these very small communities.

Mr Elliott: Sure.

Mr HOGAN: Right now there's only one ATM, and while it might not be highly used it's still very important.

Mr Elliott: Yes.

Mr HOGAN: We would hate to see those being removed from communities, because there is the scenario here that, if you don't come up with an industry solution—as you are aware—there's a withdrawal of them. If you get out first, that's great. But, if Westpac is the one left in that community, it'll be the one under pressure not to remove it, because you are not having to pay for it. But I take that you are looking for an industry solution, and I encourage you in that process.

Mr Elliott: Yes.

Mr HOGAN: Capital requirements are where every bank seems to be focusing all its lending. I'll make the point to start with—you may disagree, but this is my strong opinion and the opinion of many others—that you have an advantage over the smaller players with capital adequacy requirements. I've raised that point with APRA and others. Risk weights for housing have become, I think, particularly skewed. Are you consciously targeting low-LVR housing assets at the expense of loans to more productive areas such as small business?

Mr Elliott: No, we're not. We're in the business of taking deposits and making loans to people. Obviously, we do so responsibly and thinking about the returns. We've made commitments to grow our small business lending book for a number of years, and we continue to raise that commitment. The reality is that there's not a lot of demand today. Our business and our lending to small business has been growing, double digit, for many years. It has dipped below that in the last 12 months, but that has nothing to do with our risk appetite or with us diverting resources to housing. We want to grow both. In fact, we have a three-prong strategy at ANZ: we want to be the best bank for people who want to start and run a small business; we want to be the best bank for people who want to buy and own a home; and we want to be the best bank for people who want to move goods and money around the region. Small business is absolutely core to who we are.

Mr HOGAN: You talk to a lot of people around the country, so why do you think there has been less of a demand from small business?

Mr Elliott: That is a really good question. If we take a dry economic viewpoint, there's no doubt that business conditions are good—unemployment is low, interest rates are low, the economy is growing et cetera—but there continues to be some gaps in terms of confidence. Some of that is just about the future and some of it is to do with the impact of new technology and new entrants in the market and people feeling a little uncertain. I don't know that it is a massive issue, but there's undoubtedly a lack of small business hunger and commitment to get out there and invest and grow—they are a little bit uncertain. But there is nothing that we can see in terms of access to credit, for example, holding them back.

Mr HOGAN: I looked at Westpac's and I looked at yours, but I don't think your asset mix is as accentuated. You've told me that your loans to small business are increasing, but I notice with Westpac that their asset mix has changed quite measurably, with an increase in housing assets as distinct from small business. How is yours moving?

Mr Elliott: Ours is probably a little bit like that. We're in the business of responding to our customers. There is more demand for home borrowing than there is for small business borrowing right at the moment. But, as I said, it's not because we've made the decision that we don't like to lend to small business; we would love it to grow more.

Mr HOGAN: That's interesting. Both of you have said that's really a grassroots, grounds-up thing that is happening and it's not happening from you as a conscious decision.

Mr Elliott: There is research that is done by a man called Ross Cameron every quarter. He's been doing this for pretty much 25 years. It's qualitative and he actually goes and asks business, 'How's business?' The general tone that they use is that it's okay. Some are doing very well indeed, and particularly those exposed to property infrastructure spending. Retailers are struggling. Overall it's pretty good. Sentiment/performance disconnect. So the actual performance of the business and the sentiment seem to be disconnected a bit. So they are performing better than they appear to be talking about. Business owners are working very hard and are continuing to tweak their business models. I presume many of the small businesses are also at the back end of what you'd call the margin compression that's happening across parts of the economy. They're margin takers effectively and they are trying to provide product into the economy and they're responding to that.

So, in terms of businesses in distress, they're lower than they were this time last year, but the borrowing rates have fallen off a bit as well. I think we are getting mixed signals.

Mr HOGAN: A relationship that you wouldn't normally have put together before. That is very interesting. We will move on to the sales versus service debate. We spoke about this last time, and you made quite insightful comments about it. This was after the Sedgwick inquiry. There was a commitment to ceasing remuneration practices that drove poor customer outcomes—again, sales versus service. I get that your performance quadrant is now including customer service measurements. Obviously, though, there are still incentive payments for staff in front of customers. How do you get that right? Are we going to still be talking about it in five years time and talking about bad result for customers who got flogged a product that they didn't understand, the person who sold it didn't understand or the person did understand but they were just flogging it because they were going to get remunerated for flogging that product? Why do you think that you've got it right? I get that you say that there are service measurements there, but I'm still very suss on this one. If someone is going to be remunerated for flogging a product, they are going to flog that product whether it's good for the customer or not.

Mr Elliott: That's exactly what we're moving away from—the scorecard. We are paying people to get the good customer outcomes, that customers themselves describe as a good outcome. I'm reminded of the first branch I went to when I became CEO. It was in a small rural part of Victoria—Kyneton, a small town, a rural community. I walked into the ANZ branch and I saw a leader board, and I asked the branch manager, who had been in the bank for a long time, 'How do you balance targets with doing the right thing by customers?' He said, 'Well, it's easy. I live in this town, and those customers are my neighbours. They are parents at the school and I see them at the netball and they know where I live.' We should remember that our branch managers are members of the community. They are there; they're visible. The customers that walk into ANZ branches generally know our people. They're on first-name basis. Our people are not there targeting people to sell them an inappropriate product. They're trying to do the right thing.

Mr HOGAN: I apologise to interrupt. That's all a lovely motherhood statement, but that's not factual. That's factual for that branch. In that case, it's a small town; he does know people. You would have employees who live in big cities who don't really know their customers that well. They will never see them on the weekend. They're going to flog them products, if you remunerate them to, whether it's good for them or not.

Mr Elliott: I disagree you. I'm happy to take you around. We can go and visit some branches, whether that's in metro or whether that's here in Canberra. I don't think that's reality.

Mr HOGAN: Well, time will tell. But I get that, obviously, the quadrant has changed. You mentioned earlier, too, that you're selling off your wealth arm.

Mr Elliott: Yes.

Mr HOGAN: Is that acknowledging a conflict of interest in this sales-versus-service conflict that has been raised?

Mr Elliott: No. We're still going to be talking to our customers; we're just not going to be in the manufacturing of actually managing and the life insurance piece, or the superannuation. We're going to be more focused on doing the right thing by customers.

Mr HOGAN: But what I'm saying is: does it acknowledge the mistakes of the past? For example, your financial planner in the past obviously would have been recommending ANZ products. Whereas now, if you sell those products off, they're not going to recommend it. The model previously, obviously, was broken, which is why we have people calling for all sorts of things—because of unhappy customers. You had people on the frontline with a customer in front of them and, low and behold, they were recommending to that customer that they go and buy another ANZ product for the area that they may not have even asked about, or were asking about. Do you think that selling off this wealth arm is acknowledging that that wasn't a good model?

Mr Elliott: No, it doesn't acknowledge that at all. In fact, the way you articulate it isn't really the reality—certainly at ANZ. I can't comment on the other banks and their models.

Ms George: I think it's important to note that the financial planners within ANZ would have exactly the same obligations if they're not in ANZ. They still have to act in the best interests of their customer. We've talked about some rogue planners. There are, absolutely, some bad people in the industry. But I think most of those planners every day try to do the right thing by their customers. And if we talk about our product solutions, yes, we do offer ANZ solutions to the customer through planning. But we also have many other companies' offerings on the planners' lists. Do they write more of our product? Yes, they do. Because we understand our customer base better, we can develop the product set better to aim towards that customer. But they absolutely have choice and I think they take that best-interest responsibility very seriously. In today's world, where there's a lot of focus on that particular group of people, they take it very seriously.

Mr HOGAN: We might agree to disagree on that one, as well. With all due respect, I think that if you were an ANZ employee and you have an ANZ customer come in you have identified, maybe with a good process, that they need a certain product. I am sure the statistics show, as you have also indicated, that in the vast majority of cases you're going to sell them another ANZ product over another financial institution's product. I think maybe selling off the wealth arm might improve those outcomes.

There are two other areas I want to cover quickly. I have a quick one on data, actually. I know the chair has taken this issue up in previous hearings—the open banking and the freely available data. Do you think the data is owned by the bank or the customer?

Mr Elliott: Customer. Well, it depends what data we're talking about. If we're talking about customer data—their transaction history, their details of who they are and all of it—it's owned by the customer.

Mr HOGAN: You made a comment a little while ago, Mr Elliott. You were talking about how you would be employing less people in the future because of artificial intelligence and machine learning.

Mr Elliott: Yes.

Mr HOGAN: How far have you progressed with this?

Mr Elliott: It's an evolving situation. The reality is that, throughout the history of the financial sector, new technology impacts the nature of work. That sometimes changes the number of people we have, but, more importantly, it changes what we ask them to do. So, you know, there's a lot of benefits from using data, artificial intelligence, robotics, machine learning to get better customer outcomes—faster, better, cheaper solutions for customers. That will have an impact on the resourcing that we bring to the table—how many branches we have, how many people we have, call centres and all of those things. Our job is to make sure that we manage those transitions responsibly.

Mr HOGAN: Where do you think the job losses will be in your organisation with these developments?

Mr Elliott: At this point, with the technology that we know about today, we are probably talking more in the data entry areas. We still do a lot of very manual processes in the bank and, as I said, machine learning is pretty remarkable today. A machine can read a pay slip, identify what it is, take the data and stick it into a model for us. I don't know. All we are saying is: I think we'd be naive to say that technology is not going to fundamentally change the nature of work right across the economy, and that will absolutely include banks.

Mr HOGAN: It is happening across all sectors of our community. I suppose, just historically, a lot of those jobs have been lost in rural and regional areas in the past because you have not needed the face-to-face, with ATMs, for example, and other stuff. Do you see that the trend that is happening now with this artificial intelligence and machine learning will be more felt in rural—

Mr Elliott: That is an interesting point. If you are talking about regional and rural, really the employment that is out there at the moment is probably more through the branch network; we don't typically have big call centres. Actually, I was in Tasmania recently, and I've been out and about in different parts of Australia and actually rethinking some of that. Is there a case to be made that we should put more call centres or processing into regional towns?

Mr HOGAN: There is a very easy answer, Mr Elliott, and the answer is yes. And I have some real estate I'm happy to show you!

Mr Elliott: What the question really comes down to is: the binding constraint here is infrastructure.

Mr Hodges: And skill sets and capabilities. I think one of the things going the other way is that you might see more videoconferencing into areas where you are looking for specific skills and they are not available in that area. So it will cut both ways. But I think that, over the last 15 years, most of the staff who are in the regional and rural areas typically are, in some way, customer related, whereas the machine learning sort of activity is more what is happening in other parts of the bank, and we'd have somewhere around 9,000 to maybe 12,000 people who are doing that sort of work, which it will affect more. They are more in operations roles—

Mr Elliott: This is a really big issue for us, not because of the bank and costs and things like that but because actually those people are our customers too. I'm talking about the changes to the economy. We have been really outspoken and tried to contribute, whether it is with the BCA or any kinds of government bodies, to talk through, 'What are the implications of this for the economy in terms of jobs, the nature of work, training and development, university education et cetera, and what is our role?' I don't think it is our role to just ignore it. We are a large employer. We need to think through: 'How do we manage that transition? What is our role in terms of retraining and changing skills? What is our role in being more involved with the tertiary education sector and making sure that the right skills in data, software engineering et cetera are coming through and that we are sending those right signals?'

Mr HOGAN: I will do a deal with you. You offered before that I go into some of your branches. I'll do that. You come and look at some real estate for a call centre.

Mr Elliott: Okay. Done.

Mr HOGAN: Thank you.

Mr CRAIG KELLY: Mr Elliott, does your bank have a specific policy when it comes to lending for a proposed new coal-fired power station in Australia?

Mr Elliott: We have a policy around the financing, essentially, of fossil fuels, yes. Yes, we do. And that is publicly available. It essentially hasn't changed in some period of time. It is pretty robust.

Mr CRAIG KELLY: Does that set an emissions limit for that particular coal-fired power station?

Mr Elliott: Yes.

Mr CRAIG KELLY: Do you know what that is?

Mr Elliott: It is 0.8.

Mr CRAIG KELLY: And if it was 0.801, and it was an important infrastructure project for the nation, and it was important to get electricity prices down and to make sure we didn't have blackouts, and if it was stacking up as a profitable venture, from the fact that it was 0.801 you would not finance it?

Mr Elliott: No. Look, they are policies. It is no different from some of the questions we were talking about before. There is a danger in having narrow, single metrics driving things. We have to think of all sorts of factors. We take into account all of those factors. So, no, we don't blindly follow that. But that is a hypothetical case. We are not presented with many of those today.

Mr CRAIG KELLY: Has anyone come to you in recent years with a proposal to finance a new coal-fired power station?

Mr Elliott: Not a conventional coal station, no.

Mr CRAIG KELLY: But if someone came to you with a proposal for a new coal-fired power station, and it was around 0.8, being high intensity and low emissions, you would be prepared to look at it?

Mr Elliott: We support the transition of the economy from fossil fuels to renewables, in general. We can discuss around timing. We think that's a good thing. We're a bank. We need to make sure that when our customers are making investments and we lend to them that we have the prospect of getting the funds back for our shareholders. One of the ways we do that is to look at the risks associated with that project. Unfortunately, today, one of the risks, in the area of sovereign risk, is understanding policy changes that will affect the economic prospects of those plants. The reality is, the kinds of plants you're talking about today are long-term and require huge amounts of money. So policy certainty is really what's important in evaluating those things.

Mr CRAIG KELLY: What sort of policy certainty would you be looking at when you're considering a proposal to finance a new coal-fired power station?

Mr Elliott: I don't know the details. As I said, I can't remember the last time somebody came and asked for a program. It's not something we get asked about a lot. We take every customer at face value. And we look at that. One other thing we take into account is our own risk appetite. We already have an exposure to the coal industry. I have to make sure that our shareholders' funds are balanced and we get a decent spread of risk. I think I'm on record as saying I think we have a sufficient exposure to coal. We're one of the largest, if not the largest, of the major banks. I find it hard to imagine we'd want to increase that anytime soon.

Mr CRAIG KELLY: You don't have a specific policy regarding investment in coalmines, for the calorific value of the coal, as Westpac do.

Mr Elliott: Not to my knowledge. We have an environmental policy that talks about emissions as opposed to calorific content.

Mr CRAIG KELLY: So if someone came to you with a proposal to develop a coalmine in the Galilee Basin, you would look at it on its full merits, rather than just rejecting it outright.

Mr Elliott: Yes. We don't have any really simplistic limits to say, 'We don't do that area.'

Mr CRAIG KELLY: Even in your limit of 0.8, you said there's a little bit of flexibility around that.

Mr Elliott: Yes.

Mr CRAIG KELLY: It's not written in stone and handed out to every manager in the morning.

Mr Elliott: No. But it is our intention to meet that requirement. It's not 'a soft target and we do it when it suits us'; it's our intention to meet that target. But to your point, there are always other issues. Some years ago, when I was running the institutional bank, I remember a situation in Western Australia where they were facing some power issues, and we were asked by a customer of an existing conventional power plant to step up and help the financing. It did not meet that requirement. We took a balanced view that it was the right thing to do for the community. So we have a balance to take into account.

Mr CRAIG KELLY: When you look at the whole risk of the bank, across the board, across different industries, industries that have very high electricity use in this nation and are internationally trade exposed, is that something you have concerns about, because of the increasing cost of electricity in the nation?

Mr Elliott: Yes. I can tell you today that when we sit with mid-sized customers, not the total big end of town, if we sit around and have a roundtable discussion, things come up. It is absolutely the No. 1 issue that comes up around energy costs, in terms of the impact it has. There is no doubt that that has, and that has an impact on our ability to assess the risk of lending to customers because, clearly, like lending to households, we have to have a good understanding of what the expenses of running these businesses are. The less predictable they are, the more difficult it is for us to lend.

Mr CRAIG KELLY: An Australian business that has energy costs, specifically electricity, as a high percentage of their cost of production, that increases the risk factor and therefore can increase the potential, your ability to loan to them. And at what rate?

Mr Elliott: Again, it's hypothetical. All else being equal, which is never the case, yes, that would be absolutely reasonable. For any business that has an unpredictable cost base, that's of material, we have to take that into account.

Mr CRAIG KELLY: It's something that adds to the risk—

Mr Elliott: Absolutely.

Mr CRAIG KELLY: and, therefore, when you're weighing it up as to what margin you may be able to loan at, electricity is a significant concern.

Mr Elliott: Yes, of course.

Mr CRAIG KELLY: Do you have concerns about the viability of businesses that you're currently loaning to because of the electricity focus?

Mr Elliott: Not to my knowledge or where I can point to customer A, B or C and say there's a problem. We have tens of thousands of customers.

Mr CRAIG KELLY: But your overall loan book, you would say, would be a financial—

Mr Elliott: When we think about our portfolio, we look at industry sectors and things and economic factors. Is it a factor we think about when we look at our overall portfolio and say 'what could happen if'? Yes, we do, and we try to understand that, just like we think about climate change or what if interest rates change, et cetera.

Mr CRAIG KELLY: On another subject: if I were to transfer $10,000 in English pounds to someone in the UK, how much would you charge me?

Mr Elliott: If you walked into a branch, we'd charge you $32—I think that is roughly the number. If you do it online, if it's $10,001 we charge you $10. If it's $10,000 or less, it's $18. That's the fee that we charge people.

Mr CRAIG KELLY: How is that fee competitive?

Mr Elliott: It's a competitive market. The other banks are there or thereabouts. We try to be competitive on that one. There's a wide range of new entrants—people like OzForex and TransferWise, who are new here—who provide a different service. I will say that there's a difference here, and people have been comparing apples and oranges. It's a very different service if you walk into a branch and have face-to-face service. The other benefit that bank transfers have is they are fast. When we transfer money from an account to another account, the international bank network makes that transfer much faster typically than other providers. We have a lot of controls around that. But we're comfortable we're competitive.

Mr CRAIG KELLY: There was a report in *The Australian*—you probably saw it—last week that made comparisons of costs of foreign exchange transfers between the Australian banks and other banks in the US and in Germany. They gave the example of transferring pounds to a British bank. Do you agree with the numbers in that report?

Mr Elliott: No. In fact, there's a new entrant in town. I would say they have got a very good PR strategy, and good on them—that's why it's a competitive market. They're out there and they're pushing their product. They've got a different level of service.

Mr CRAIG KELLY: What I was talking about was the comparison between the Australian banks, the German banks and the US banks of the cost of doing a virtually identical transfer.

Mr Elliott: After reading that report, as you would imagine, I asked—and we went and did the maths—how on earth would these numbers come about? They don't reconcile with what our customers experience at ANZ. I don't believe that that's a fair comparison. I haven't seen where they got their data from, but I think they're comparing apples and oranges in that review.

Mr CRAIG KELLY: They're comparing making a $10,000 transfer to a British bank account. They're looking at the cost of German banks, which charge less than 50 euros, which include a 0.3 per cent mark-up. They're talking about the US banks having an average mark-up of three per cent, but the Australian banks being around 4½ to six per cent.

Mr Elliott: They are not numbers we recognise, in terms of our offering.

Mr CRAIG KELLY: So you believe, currently, the cost of transferring foreign exchange in Australia is comparable with other banks in other countries?

Mr Elliott: Again, I don't know how they chose that number from Germany, et cetera. I know that the numbers they're quoting for what it costs an ANZ customer are not correct. I have to assume there are questions over all the data in that. But I don't know. I'm worried about what we charge our customers. I believe we're competitive.

Mr CRAIG KELLY: There's the disclosed fee, which is up-front. It's measured in dollars. But isn't a lot of the cost of the transactions for any customer the exchange rate that you're actually giving them?

Mr Elliott: Absolutely, yes.

Mr CRAIG KELLY: It makes it very hard for customers to compare apples with apples on transactions.

Mr Elliott: I don't know about that. You're absolutely right on the premise that there is a—

Mr CRAIG KELLY: We want you, as a bank, to be profitable and pay your tax so we, the government, can get it and spend the money. There's nothing wrong with you making a profit. But part of the profit you make in recovering your costs is on the dollars that you charge for the transaction, and part is also on the margin on the foreign exchange.

Mr Elliott: That's absolutely true. The question here is about transparency. A customer will know with certainty what the rate they are getting, in terms of the transfer, is—for example, buying pounds at what rate. Transparency is remarkably high. You can go online and in literally seconds find out what the currency rates are, what the midrate is—like a wholesale price—and where there are different providers. It's pretty simple. And, you know, good on them. There are new entrants, people like OzForex—

Mr CRAIG KELLY: The FX trading rate at the moment for the US dollar might be 0.7485321, or something like that. You think that's available?

Mr Elliott: Absolutely it's available—yes.

Mr CRAIG KELLY: What do you suggest of proposals that have been made that you would have to make some informational disclosure about that margin when you're offering that transaction to a customer?

Mr Elliott: Well, as I said, we disclose, today, the price that people pay. The wholesale foreign exchange market is a highly volatile and moving one; it's literally moving in not even seconds but microseconds. So, at any point in time, it's not quite as simple as it sounds. But we disclose exactly what the rate is, and people are free to search other banks and other providers—internet, local, international—to decide whether they want to deal with ANZ.

Mr THISTLETHWAITE: You mentioned policy certainty regarding energy policy in Australia. It appears to be an issue that's peculiar to Australia at the moment. If you look at Europe, they have a clear pathway. They accept that climate change is occurring. They accept that their nation needs to do more to reduce carbon emissions and to increase renewables. They have a clear pathway. They have mechanisms to achieve that through an emissions trading scheme. The same can be said for South Korea. The same can be said for Canada. China's moving that way now. New Zealand, our closest neighbour, is moving that way. Are you saying that it would be beneficial for the finance sector, in looking to fund energy projects and businesses in this country, if we had a similar policy certainty—in other words, a clear pathway—to achieving emissions reductions and increasing renewable energy in our country?

Mr Elliott: It's easier for us to provide financing at a competitive rate when we can model the future prospects of a business with a higher degree of certainty. Any policy or taxes, any kind of impacts on that business—the more certainty we have around that, the easier it is to model, irrespective of what the policy is, per se. Absolutely, it's a factor. The less certainty we have—it's really hard to know whether business A or business B is viable. How do we lend to that business if we're not really sure what might change in the future?

Mr THISTLETHWAITE: The Chief Scientist recommended to the government—twice now—that they should establish a clean energy target to provide that certainty of policy. It's fair to say, then, isn't it, that the government's inability to make a decision on that is harming the doing of business in Australia?

Mr Elliott: That's an issue for the government. From a bank's point of view, we would prefer a level of certainty or a level of predictability.

Mr THISTLETHWAITE: You mentioned that, in assessing borrowing or lending for a new coal-fired power station proposal assessment of risk, in the current environment, in terms of the way the rest of the world is moving—away from dirty, polluting coal-fired power to renewables—that would be a risky investment, wouldn't it?

Mr Elliott: We take into account two things. As I said, we do some predictions around the cashflows of that business, what that looks like. But one of the factors will be: 'Well, given they're generally long-term, what if government policy changes in that time? What if community expectations change? What if, suddenly, those businesses become unacceptable?' That changes our model. Again, it goes back to the certainty issue or predictability. Those things are of concern.

Mr THISTLETHWAITE: Given that you're talking about billion-dollar investments, you're talking about long planning, lead-in and construction times.

Mr Elliott: Yes.

Mr THISTLETHWAITE: From inception to commissioning, you're talking at least four or five years. That makes it even riskier, doesn't it?

Mr Elliott: Yes.

Mr THISTLETHWAITE: Thank you. In terms of foreign exchange and trading: in March 2017, ASIC announced that they'd accepted an enforceable undertaking from ANZ in regard to some inadequacies in your foreign exchange business. I don't think I need to go into the details; you're aware of this issue.

Mr Elliott: Yes, we are.

Mr THISTLETHWAITE: I want to know what happened to those traders that were involved in that conduct.

Mr Elliott: They're no longer with the bank.

Mr THISTLETHWAITE: Okay, so were they sacked or did they resign?

Mr Elliott: The recollection, again, is that largely they left the bank at the time that investigation was being undertaken.

Mr THISTLETHWAITE: Okay. Do you know if they're working elsewhere now?

Mr Elliott: My knowledge of some of the more senior ones is that essentially they're self-employed.

Mr THISTLETHWAITE: Did ASIC launch proceedings against them? Were they prosecuted in any other forums?

Mr Elliott: Not to my knowledge, no.

Mr THISTLETHWAITE: Were any customers or any clients worse off as a result of this?

Mr Elliott: That's certainly not what we found. Obviously, that was our primary objective—to go back and ask, 'Has there been any unintended or malicious harm to any customers?' Our investigations suggested that that was not the case.

Mr THISTLETHWAITE: So this particular issue and the ASIC work followed on from another area where ANZ was involved in conduct that resulted in fines—I think it was $9 million. There was a Federal Court fine for attempted cartel conduct in relation to manipulation of the Malaysian ringgit in 2011. Again, that involved traders. I assume again that they either resigned or were dismissed?

Mr Elliott: Yes.

Mr THISTLETHWAITE: You're currently involved in these proceedings brought by ASIC in respect of the bank bill swap rate manipulation?

Mr Elliott: Yes.

Mr THISTLETHWAITE: Given that you've been involved in all three of these actions, do you think there is a potential problem in ANZ with these sorts of issues within your organisation? And has the board looked at this and done anything about it?

Mr Elliott: Clearly, we have had issues and we need to change policies, processes and people to make sure that these things are dealt with and that they don't happen again. Absolutely, we have changed the way we run the bank. We've changed the people who run the bank and changed some of our policies around that. I'm confident that we are in a far, far better position today. I can't guarantee that things won't go wrong in the future, but that's what we're working really hard on.

Mr THISTLETHWAITE: Do you think that there is an issue—not only in Australia but particularly in developed nations—in the conduct of some of the people who work in these markets? Some of the jargon that you hear around what they do is really akin to gambling: 'We bet that the Australian dollar will do this or will do that. We backed a particular future position on a currency,' or something like that. Do you think that's a problem in terms of the culture not only within banks but in other financial service providers and financial stockbroking firms? That, really, it's becoming gambling: they're using other people's money—essentially, with their consent—to gamble on positions in foreign exchange markets, equity markets, shorting stocks and these sorts of things? Is that an issue that perhaps we should be looking at from a regulatory perspective?

Mr Elliott: I think we do have regulation in place around that. I think, actually, that the industry has come a long way. In fact, what you describe is really something—and I'm talking globally here, including in Australia—that was very prevalent in the eighties and nineties. I think the industry has matured incredibly since then. We have far more controls in place.

For example, we monitor what people say; we never used to do that. We record phone calls. We monitor what people are saying, what they're talking about in chat rooms and what they're doing online to make sure that we don't see that kind of behaviour. It's certainly not something that we run as a business—to say that at ANZ we have people who gamble, using your terms. That's not right and it isn't what we do in terms of the prosecution of our business.

Mr Hodges: Each of these people have limits that they operate within and we have systems to pick up if there are any breaches in those limits. And at the overall level of the business we have value-at-risk measures so that we can understand where those sit at any particular time of the day. I think the sophistication around that, as Shayne said, is substantial and that the monitoring is really close and tight.

Mr THISTLETHWAITE: But when it all falls apart in one market, doesn't it just move to another? Essentially, didn't it just move to the housing market with the global financial crisis—the residential mortgage-backed securities?

Essentially, people were betting on house prices continuing to rise, particularly in the United States, over a long period of time, bundling up these mortgages and selling them as securities—people just, basically, bet on the fact that they thought that things were going to continue to rise. We have a crash in one market, we say we learnt our lesson, the regulators come in, we do a few things and it just moves to another market. The same thing happens: it crashes again and then we introduce further regulation.

Mr Elliott: That's why we have due process and that's why we have regulation. I think Australia should be proud of the fact that it's a well-regulated financial system and we didn't suffer from the things that you're talking about. Does that mean things are perfect? No, clearly, and clearly we can improve. That's why we have committees like this—to constantly challenge us and to make sure that we are improving. I'm confident that we are improving. I'm confident that the Australian system is well managed, actually, and well regulated. If you go and talk to global regulators about APRA, the RBA et cetera, these are people held in high regard and globally seen as best practice in many ways. So I think we should feel confident in the system. There are always going to be issues—and there have been. Look, I wish we didn't need a BEAR. We shouldn't need one. We shouldn't need regulation to keep us operating ourselves well, but I understand the need for it. We are improving, we're focused on doing the right thing and, again, as I said, I think we should be proud of the system that we have.

Mr THISTLETHWAITE: I'm not sure I agree with you that we didn't suffer here in Australia in the wake of the global financial crisis, but I take the point—

Mr Elliott: Not to the extent that others did.

Mr THISTLETHWAITE: Plenty of people lost on their superannuation funds.

Mr Elliott: I didn't mean to be dismissive of that; I'm just referring to the system.

Mr THISTLETHWAITE: I want to go back to the foreign exchange fees that Mr Kelly mentioned. You pointed out that you disclose up-front the fee that you charge for the actual transaction, but you make money on the difference between the exchange rate that you do the transfer at and the exchange rate that you charge the customer at as well, don't you? It's called a mark-up.

Mr Elliott: We're a wholesaler and a retailer, and, just like any business, there's a wholesale price for our product—British pounds in that case—and there's a retail price. The wholesale price is because we're transacting at huge volume. So, yes, there's a difference in those prices. But that's no different than supermarkets and the difference between the wholesale price of milk and the retail price of milk. Yes, there is a difference. The important thing here is that people know what they're getting and they know what they're paying.

Mr THISTLETHWAITE: But the difference at the supermarket is that, if you go in and buy a litre of milk, you know how much you're paying for it and you pay for that. It says how much it is. But, if you do a foreign exchange transaction with a bank, the fee for the transaction's disclosed but the mark-up on the actual exchange isn't often disclosed, and that's where people get bitten.

Mr Elliott: With all due respect, no, we do disclose the rate of foreign exchange. When you go to the supermarket, they don't tell you how much money they're making on the pint of milk. They tell you what the pint, or the litre, of milk's worth. It's the same. We tell you what exchange rate you're getting. Yes, you're right: we don't tell you the difference between that and our wholesale price, but I struggle to see anywhere in the economy where that is the case.

Mr THISTLETHWAITE: Would you have an issue with disclosing that to the customer so that they're given, if you like, a total figure of how much—

Mr Hodges: They get the total figure already.

Mr Elliott: They are given the total figure. We tell you how many British pounds you are actually going to get after fees, and you can go and shop around. You can ask different banks; you can go online. It's your choice.

Mr THISTLETHWAITE: But it's like a lot of banking products. You're really taking advantage of the inelasticity of the product. In other words, if someone has $10,000 in an ANZ bank account and they want to transfer that to a UK bank account, you say, 'They can shop around and do it elsewhere,' but that would require, potentially, opening another account in another bank or another organisation, transferring the money there, for which they'll potentially incur a fee, and then transferring it overseas to avoid paying the higher cost. You're taking advantage of the inelasticity of the transaction in that people won't move—

Mr Elliott: I don't believe that we're taking advantage of it. We offer a really good service, as I said, but the reality is it's really simple, actually. I've used OzForex as an example. If you want to use their service, it's really simple to set up an account and transfer the money. There are no barriers to that. People have choice. That's a good thing. There are new competitors coming into the market all the time and new technology providers. That's good. It keeps us on our toes, and I'm sure that fees will continue to be competitive in the future.

CHAIR: I have just a couple of final questions. In relation to open data, the King & Wood Mallesons partner Scott Farrell is currently preparing a road map for the implementation of the open banking data regime. I just want to understand if you had been engaging with him, so to speak, or had any input into that process. I think, from memory, that last year you were supportive of this initiative. I just wanted to understand what you're doing about it at present.

Mr Elliott: Sure. We remain supportive. We take the really simple view that the data we're talking about belongs to our customers. It's our responsibility to make it accessible to them so that they can get a better deal, perhaps. In terms of Mr Farrell, I haven't met with him personally, but, to the extent that he may well be engaging with our team, we're totally open. What we're focused on here, as we've tried to be on a number of these issues, is not arguing about the intent. What we're trying to do is just make sure that things are practical and thought through and there are no unintended consequences. We're moving ahead.

CHAIR: Okay. The Treasurer recently announced a change in relation to digital currency in Australia and the taxation of digital currency, where previously there was a scenario where people might pay GST on the transfer into the digital currency and then also when they seek to use that digital currency to purchase a good or service—it's actually double taxation. That's being amended. I was just interested in your view on that issue and also more generally on digital currency. One of your international colleagues, Jamie Dimon at JP Morgan, had some fairly strong words about bitcoin, and I was just interested in whether ANZ has a view on digital currencies.

Mr Elliott: Not a particularly well-thought-through one, I'd have to say. The question about cryptocurrencies is: are they a good or are they a currency, a means of transfer? That has implications for tax, so that's fine. I think the question here is: is there a place for different means of exchange? Any exchange—the piece of paper I have in my wallet that has '$50' written on it—is based on trust. I accept that people will accept it and will exchange goods for it. If people are willing to take a cryptocurrency, good on them. Obviously it has to do with trust and the regulation that sits around it. So I think there is a role for it.

I think, personally, it's overdone in terms of its real role in the economy. There's little or no demand for it from customers, because the legal tender we have under the auspices of the RBA is perfectly good and works really well and is pretty low cost, actually, in terms of operation. But that doesn't mean that cryptocurrencies won't evolve, and there'll be new things that come out of it. Essentially, as you know very well, that's exactly where this whole blockchain idea has come from. It's come from this currency idea, and now it's morphed into: 'Gee, there may be ways we can actually change the way we operate businesses using blockchain technology.' So I think it's a fast-evolving space, and we keep an eye on it.

CHAIR: So presumably you don't have any exposure, so to speak, to digital currencies?

Mr Elliott: We don't buy and sell them or anything like that. We are certainly invested in blockchain as a technology, trying to learn, but not as a cryptocurrency, no.

CHAIR: Okay. Presumably that's not something that you would be likely to do—to in any way expose the bank to the fluctuations in digital currency?

Mr Elliott: No, we have no ambitions to do that.

CHAIR: Thank you. Just lastly, you paid $3 million in relation to this rigged foreign exchange issue for financial literacy courses along with Westpac earlier in the year. I want to ask the same question I asked Mr Hartzer. Because of that unlawful activity, have there been any consequences for executives at ANZ—leaving aside the individuals who were involved, for whom I understand there were consequences? For the executives to whom they reported, have there been any consequences?

Mr Elliott: Yes, in the sense that the executive to whom they reported is no longer with the bank either. Again, it's not reasonable or fair to stretch that to say that that was the reason for that executive to leave, but clearly there's been a change of management within that entire business. Things like that were a factor in those decisions.

CHAIR: So the decision to move that person on was after the bank became aware of these issues?

Mr Elliott: Actually, yes, it was after awareness. It was before the final settlement and agreement with ASIC.

CHAIR: Okay. That brings us to our closing time, so thank you for your attendance here today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact.

Resolved that these proceedings be published.

Committee adjourned at 16:15