COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Annual review of Australia's four major banks

WEDNESDAY, 5 OCTOBER 2016

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Wednesday, 5 October 2016

Members in attendance: Mr Bandt, Ms Banks, Mr Buchholz, Mr Coleman, Mr Conroy, Mr Evans, Mr Hogan, Mr Craig Kelly, Mr Keogh, 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

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

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

Committee met at 09:15

CHAIR (Mr Coleman): I declare open this hearing of the House of Representatives Standing Committee on Economics for the review of the four major banks. The Treasurer has asked the committee to hold public hearings at least annually with 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 those are affecting the policies of Australian banks; the costs of funds, impact 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 April 2016 six-point plan to enhance consumer protections, and in response to government reforms and actions by regulators.

I would like to outline a number of matters related to the conduct of today's hearing. Firstly, I would 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 deliberate at a future private meeting on whether or not to insist upon an answer. If the committee does consider the matter in private, it may write to the witness with the outcome of its discussion.

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 discuss 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. Should requests for documents arise during today's hearing, the committee will ensure that you are provided with written information related to those requests. I note that should any member have further questions that they would like to put to today's witnesses at the conclusion of the hearing, they may put additional questions in writing to the witnesses and the witnesses are then required to respond in writing to the committee.

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 Limited. 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. Finally, I note that my wife and I have a small savings account with ANZ.

We have witnesses present from ANZ Bank Limited for today's hearing. I remind you 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 a contempt of parliament. I now invite you to make an opening statement.

Mr Elliott: Thank you for the opportunity of representing ANZ. I assumed the role as ANZ's chief executive nine months ago, and I am accountable for the bank's performance in all respects. It is my responsibility to ensure that the culture, values and behaviours of our 60,000 people, combined with our standards, policies and procedures, deliver a fair, transparent and balanced outcome for all stakeholders. I take that responsibility very seriously, but, in truth, we have not always met the standards that we set for ourselves or that the community rightly expects of us. Each time we fall short, we potentially harm a customer or a member of the community. For that, I apologise. When we fail our customers, it is my job to take accountability, apologise, fix it for the customer as quickly as possible and make the changes required to stop it happening again.

Public scrutiny and accountability over what we do and how we behave is a fair part of the process, and today is part of that. I hope these appearances will allow me to answer your questions on the matters set out in your terms of reference. I know there are also other issues members wish to discuss. I have asked my deputy, Graham Hodges, to join me today, given his in-depth knowledge of some particular matters.

I realise you have a lot of questions, but I wanted to make a few opening comments. We are in the business to serve customers, and if we do so successfully we will generate a decent return for our shareholders. Those shareholders provide the foundation of equity—the equity which is required first and foremost for the bank to attract deposits and make loans. Without those shareholders we cannot serve our customers, and without customers we have no business.

While on many measures we are a large bank, we are 16 per cent of an open and competitive market here in Australia. Traditional competition is intense and has seen the margin charged by the industry between loans and deposits halve over the last 20 years, and that trend is likely to continue. As we have seen in other industries like retailing, media and communications, new technologies and business models will deliver even better results for consumers and greater competition. Near universal access to high-speed internet, big data, blockchain, peer-to-peer and new payment options are already changing banking and, over time, will further empower consumers—and this is a good thing. The ongoing reality of new and old competition pushes us hard every day to improve, and we invest shareholder funds each year to be faster, better and cheaper for our customers. Recent examples include free mobile banking services like goMoney and Apple Pay or low-cost options like ANZ Smart Choice Super.

The ANZ that I will lead stands for six important principles, and we should be judged against them. First, we should offer services that are easy to understand, competitively priced and designed to meet customers' needs. Second, we need to ensure customers get the right products for their individual circumstances. Third, when customers get into difficulty or when we fail them, it is our responsibility to work with them to find a fair and balanced resolution. Fourth, we should be quick to fix mistakes and stop them happening again. Fifth, when making decisions that affect our customers, we need to explain them clearly. Finally, we need to ensure that our culture and processes are aligned to produce the right results for customers.

There are three other issues I would like to comment on: bank returns; how we make interest rate decisions; and some high-profile matters where we have clearly failed our customers—and in those cases I want to explain what we have done to achieve a fair and balanced resolution. There has been much debate about whether profits and the return on equity for Australian banks is too high, and I have circulated a few charts to help explain our perspective. We reported an annual profit last year of around $7½ billion, and by anybody's measure that is a lot of money. But we are a very large business, with assets of almost $900 billion. Those assets are primarily the loans that we make to our customers. So, while our profit is large, it is less than one cent per dollar of the assets that we hold.

Governor Lowe rightly pointed out that the average return on equity for the industry in the past decade was around 15 per cent, and he noted that it was similar to the decade prior. But it is important to look at the trend of returns within that most recent decade. For ANZ, we started at almost 20 per cent and we have trended down to a little over 12. Returns on Australian banking are trending lower, and that has largely been driven by two factors: first, a competitive market which delivered better pricing for customers; and, second, the cost of strengthening our balance sheet, which meant raising more equity and holding more liquidity to ensure we are unquestionably strong. This strengthening has been a sensible and pre-emptive response to protect Australians from the havoc caused by the 2008 crisis in the US and European banking systems, but it does come at a cost to shareholders and customers.

As you can see from my chart pack, the return on equity of the banks has been significantly less than other sectors in Australia over the last one, five and 10 years. Our returns are also about the same as that experienced by leading banks in developed markets, particularly if one adjusts for the fines paid by US and UK banks in recent years. Returns from the banks in Europe are certainly much lower, but this is due to the near failure of their system and the 483 billion euros of taxpayer money that was used to recapitalise those banks after the crisis. Despite that capital injection from taxpayers, European banks still struggle to fulfil their role as a provider of credit and a catalyst for economic growth, and their returns remain low.

Finally, while return on equity is an important measure of financial performance, it is not the return that our shareholders receive. They receive the dividend, plus any appreciation in our share price. On that measure, called total shareholder return, ANZ shareholders have received an average annual return of a little over nine per cent in the past 10 years and saw losses in four of those years. So, shareholders have not always won.

I know that the committee is interested in how we set interest rates. Borrowers and depositors are very sensitive to rates. The rate we offer is our main competitive weapon, so being competitive is an absolute must. We need our lending rates to be as low as possible to retain and grow our lending business while still maintaining a fair return for depositors and shareholders. While the RBA cash rate is an important ingredient in our cost of funds, it is not the only ingredient. There are three main sources that provide the funds we need to lend to customers. First, there is the equity provided by our 550,000 shareholders, most of whom are Australian retail investors and their superannuation funds. This is the cornerstone of our balance sheet. Shareholders take the risk and expect a decent return, and without their capital there can be no lending. Second, there are the deposits provided by both individuals and companies. This is the pool of funds that the RBA rate influences most directly, but it is only 60 per cent of our funding base. Australian banks today do not have enough deposits to fund the demand for borrowing, so our third source of funds is the domestic and international capital markets. In these markets we must pay a rate competitive with other domestic and international borrowers, so when the RBA changes rates it directly impacts some, but not all, of our funding cost. This year, to balance the interests of stakeholders and take account of competitive pressures, we cut our lending rates, held or increased deposit rates and cut our dividend to shareholders.

Over the last few years parliament has examined aspects of our industry's behaviour. This has helped shed light on cases where my bank has failed some of our customers. I say this to acknowledge our failings and the role parliament plays in holding us to account. But let me be specific. First, in 2010 we acquired the farm lending business of Landmark. We accept we should have worked better with customers, particularly where they were already in difficulty. This was wrong, we were too slow to fix it and we apologised. However, we have now changed our processes, increased our resourcing and reached a resolution with nearly all of our customers. Second, we were one of the lenders to Timbercorp, one of the managed investment schemes that collapsed around the time of the financial crisis. We did not lend directly to people who invested in the schemes, nor advise them to do so. We have, however, worked with the liquidator on a hardship program for those investors in financial distress. We are also working to help shape a last resort compensation scheme, which we will help fund, for victims of poor financial advice where their insurance fails. Third, we agree that giving small business better access to dispute resolution is critical; the challenge is to keep it simple, accessible and efficient. Fourth, we are working to repair several situations in our wealth business where we have failed our customers. We are making it right for customers, fixing systems and supporting industry reforms like the 'bad apples' register. Finally, we are working with our industry on significant improvements regarding remuneration, whistleblowing and the banking code of practice. We recognise that the government has a full agenda of reforms, including product intervention powers, revised competition laws and better funding for ASIC. Strong laws and regulators underpin the integrity of our system and are in everybody's interest.

That concludes my opening remarks. We are here to answer questions, and you have my commitment that we will provide whatever information and documentation possible within the confines of our ASX disclosure obligations and respecting the commercial and competitive sensitivity of some of that data. Thank you.

CHAIR: I want to start out with a number of specific instances of behaviour by ANZ, and then I will come to some broader systemic questions for you a bit later. Firstly, between early 2013 and mid-2015 around 1.3 million customers were affected by various breaches within the OnePath wealth management business. Those breaches included customers having their superannuation money allocated to the wrong account for up to 12 months. That is a farcical situation and suggests that you completely dropped the ball in looking after your customers in that business. How could that have happened, and what have you done about it?

Mr Elliott: Yes, we make mistakes, and that was a mistake of reasonable magnitude. What we have done about it is that we have put it right for our customers and we have put them back to the situation they would have otherwise been in except for our mistake.

CHAIR: How did it happen?

Mr Elliott: It happened because mistakes were made in terms of the process of—

CHAIR: Yes, but why?

Mr Elliott: We did not test well enough our systems for making the transition of their superannuation funds.

CHAIR: How was that allowed to occur? Surely as the leader of the bank you would accept that you need to have processes in place to ensure that something of that magnitude does not occur. We are not talking about a small number of customers here.

Mr Hodges: If I may interrupt, I think the press reports had 1.3 million customers who were affected, but it was actually 1,400 superannuation accounts, not 1.3 million.

CHAIR: Yes, but as I understand it there were 1.3 million different breaches—1,400 of the specific superannuation breaches, but there were other technical breaches as well.

Mr Hodges: There were 1,400 of the specific superannuation breaches that you talked about, not 1.3 million.

CHAIR: Yes, but the reports—and, I think, your own release—acknowledge that there were other problems as well, not just the superannuation issue. Is that not the case?

Mr Elliott: There are issues within the wealth management business—you are correct—in terms of superannuation. The specific one you are talking about affected the numbers that we just referred to—

Mr Hodges: The 1,400.

Mr Elliott: the 1,400 customers. Nonetheless, that does not matter. It is 1,400 customers; it is still important. We made a mistake. It was poorly managed. We did not have the right controls and processes in place to check that, and that is what we have fixed subsequently. We have put all those customers back to the position that they would have been in otherwise and we have changed our process to make sure that it does not happen again.

CHAIR: When you say you have changed your process, what were the internal consequences in terms of management and remuneration?

Mr Elliott: Remuneration absolutely would have been affected for individuals who were involved in those breaches, if there was found to be individual culpability—and there was. I would have to get back to you on the number of people that were involved, but absolutely there would have been consequences. There were consequences to the business overall in terms of, for example, the remuneration that that team received, and there certainly would have been consequences for individuals.

CHAIR: What about the incentives in place for the selling of OnePath products? Do you have incentives that are aligned to the needs of consumers or do you have incentives that are designed to incentivise maximising the sale of these products, regardless of the impact on consumers?

Mr Elliott: As a general rule we follow a process around a balanced scorecard for most people in the bank. That means that they have various weightings depending on financial results, which would include sales but not only sales. It would be the way that they operate in terms of the risk, people, measures, values and the way that they behave. So there is a balanced scorecard of results that determine compensation for people, including the wealth business but also across the bank.

CHAIR: I want to move on to another topic but I will just put you on notice that we will be writing to you regarding OnePath specifically, seeking board documents and documents related to investigations you have undertaken into the behaviour within OnePath and specifically the impact on consumers.

I want to move on to customers being charged fees wrongly and arguably unlawfully. Just last month you announced that you refunded $31 million, I think, in fees for 390,000 customers who were wrongly charged fees on their accounts by the bank. As I understand it, this is the fourth time since 2015 that you have been forced to compensate customers for charging fees that you were not entitled to. Last year you reimbursed financial planning clients after you charged them for annual reviews that they did not actually receive. That suggests an internal culture which is at best negligent and at worst deliberately structured to charge fees to clients that you are not entitled to charge. What is your response to that?

Mr Elliott: We have had a number of fees refunded. When we find mistakes and we have overcharged, we refund the fees. The one you are talking about with the 400,000 customers was around $29 million due to charges made on periodic fees where there was a misinterpretation in our systems around the terms and conditions of those fees. We made the mistake, we found it, we fixed it and we gave the money back to our customers as quickly as we could.

CHAIR: That is not a small mistake—

Mr Elliott: It is not.

CHAIR: 400,000 customers charged an incorrect fee on a core banking product. As I understand it, it is pretty much your core business to understand what fees you are entitled to charge your customers. What will occur in the future as a consequence of that and, again, what consequences have occurred for staff, remuneration and related issues?

Mr Elliott: That particular one comes down to a technical definition. We do not need to go into the details, but the fee was supposed to be charged for when you are making a payment to a person or business other than yourself. The system broke down where it was not clarifying, so people were being charged that fee when they were transferring between their own accounts. That was a mistake made in the programming—the algorithm, if you will—for doing that. We have done an audit of that and we have changed our processes for testing and making sure that terms and conditions are transferred into absolute, accurate algorithms and charges going forward.

CHAIR: And what consequences were there for the mistake?

Mr Elliott: I cannot recall on that particular one, but no doubt there will have been consequences, and I am happy to come back to you with the details on the consequences.

CHAIR: Okay. On that issue generally, as I said, that is four times since 2015 that you have charged significant numbers of your customers a fee that you were not entitled to charge, and we will be writing to you seeking documents in relation to all of these different instances, from board documents to various other papers as well.

I come now to the issue of the bank bill swap rate. As you know, ASIC is currently pursuing you in the courts over this matter. These are very serious allegations that, effectively, allege that you manipulated the bank bill swap rate for your commercial benefit on no less than 44 occasions between 2010 and 2012. You deny those allegations, and they will be tested in court. I want to note that, as I understand it, you took the decision to reinstate to your bank the traders who had been placed on leave pending the resolution of this matter even though the matter has not actually arisen in court. I wanted to understand if that was correct and, if so, why you would do that given that these are very serious allegations which, of course, you have denied—and you are of course entitled to make your defence. Pending the outcome of that case, why would you reinstate the people who are the subject of these very serious allegations?

Mr Elliott: Because we have done our own internal investigations and believe that they have done nothing wrong. We took a very conservative stance when this happened. When we first had this conversation with ASIC around these allegations, we did an internal review to see if we believed there had been any wrongdoing and we took a cautious approach to say why we were conducting that review. A small number—I cannot remember the exact number, but a handful of people—we stood down and asked not to come to work during that period of time. Again, I think that was a very conservative stance that we took. While we investigated, we looked at all the transactions they had made, the conversations they had had, chats, emails et cetera. What we found as a result of that—again, testing against our standards, because at the moment ASIC's are only allegations—we found that the majority of them had done nothing wrong. Two of them, we found, had. They had violated our code of conduct, and we fired them. The others, after a long period—they were stood down for a significant time—we reinstated on the basis that we had no reason to stand them down. From our standards and code of conduct they had done nothing wrong.

CHAIR: And you do not think it is prudent to stand them down pending the outcome of the allegation by an independent arbiter—a court—as opposed to your own internal investigation.

Mr Elliott: I think that takes us down a very difficult road that says, just because a regulator is investigating something, we should stand down all the people that are potentially involved in something. It takes us down to quite a difficult employee relations issue.

CHAIR: Isn't it quite a standard practice, when employees or officers of other bodies are the subject of serious allegations, for them to stand aside pending the resolution of that allegation?

Mr Elliott: The ASIC investigation is about the organisation. They are not taking charges against individuals, and so those individuals are not being charged at this stage.

CHAIR: But those individuals are at the centre of why ANZ is being charged.

Mr Elliott: Correct and, as I said, we do not believe those individuals have done anything wrong.

CHAIR: All right. I want to raise a number of other, more systemic matters about the banking system and issues in relation to the interest of the committee in practical improvements to the operation of the existing system, particularly with the focus on benefits to consumers. A number of these matters I discussed yesterday with Mr Narev as well and would also like to raise with you.

The issue of interest rates obviously was part of the genesis of this inquiry, and it is something that my constituents and, no doubt, the constituents of everyone sitting at this table are very concerned about. We hear a lot about this issue. As you know, in Europe and the United States it is quite standard for the tracker rate mortgage product to be offered, which enables a consumer to get a rate which is some benchmark plus a margin. It might be the cash rate, it might be LIBOR or it might be whatever. That product is not available in Australia, for reasons that are not really clear. The question is: why isn't that product available? If the committee was of the view to recommend that through legislation or regulation banks be required to provide a tracker rate mortgage so that consumers would actually know where they stand relative to the RBA cash rate always, what would be your view on that?

Mr Elliott: Sure. I think there is a very valid place for that product in Australia. In fact we have looked at it and we continue to look at it to see whether there would be a market proposition for us. Our testing really comes down to: do we think that consumers would be attracted to it in sufficient volume to make it worthwhile? I think, from a theoretical point of view, if you will, as we mentioned before, our cost of funds is not directly related to the RBA cash rate. We can debate that, but that is our view. If we were to offer to lend money on that basis that is 100 per cent linked to it, we would incur some cost of funds risk in the difference, so we would have to charge a premium for that. The question is: do we believe that consumers would be prepared to pay that premium in return for certainty? I think there probably is a market for that, and we have seen that it has worked elsewhere. We are actively looking at whether that can be put in place.

CHAIR: So why hasn't it been done? It just seems very odd that this is not available in Australia.

Mr Elliott: Our view would be—and we might be wrong—that generally people are attracted to the headline rate. The reality is that, on a like-for-like basis, a tracker rate is going to be more expensive because of that risk than just an average standard variable rate. If people want certainty in Australia, they have tended to choose to have a fixed rate, so they do have an option of certainty. We are not convinced that there is a market to pay more for certainty.

CHAIR: And why couldn't that product be offered on a no-worse basis than the standard variable rate?

Mr Elliott: Because there is a higher risk for us in terms of our ability to fund it. On a standard variable rate there is flexibility. We take into account our actual cost of funds, which is not the RBA cash rate. We take into account our actual and we price accordingly. With a tracker rate we are locked in; therefore, we are taking the risk. If our actual cost of funds is higher—

CHAIR: You are also taking a risk on the other side too: if your cost of funds is lower.

Mr Elliott: Sure, absolutely—but there is risk, and we would have to price for that risk. It is not equal one way or the other. So we would have risk and we would have to put in place processes to manage that risk within our markets and treasury business, and therefore we believe that the product would have a premium price.

CHAIR: But you would not be opposed to regulatory action in this area.

Mr Elliott: Absolutely not; not at all.

CHAIR: Okay. The other issue I want to raise is the whole issue of account affordability switching and so on. Over a number of years this issue has arisen where consumers want to get rid of their bank because they are unhappy with the performance of the bank. The practical reality is it is a very hard thing to do and it is not an easy process to switch banks, because of all the form filling out and so on. This has been looked at by previous parliaments in various inquiries, but, frankly, not a great deal has happened in this area. Technology has changed things a lot and, as you might be aware, in the UK the regulator is requiring that all banks open up their data—with the consent of consumers, of course—to other banks and financial institutions by 2018. That is going to help consumers to more easily move between banks, because their transaction history will be available. Whenever this issue has arisen in the past, the attitude of the banking sector has generally been to say it is all too hard, there are technology problems, there are privacy issues and we should not do it. Interestingly, pretty much everyone who competes with you thinks it is a good idea, would be good for consumers, should happen and that the privacy issues can be dealt with. If the committee were to recommend that the government mandate ASIC to force you to open your transaction data—with the consent of your consumers, obviously—to enable competitors to access it and to introduce other measures to make it easier for consumers to switch between bank accounts, what would be your view on that?

Mr Elliott: We would be happy to cooperate. The reality is that today—

CHAIR: Why have you always opposed it in the past then if you say you are happy to cooperate?

Mr Elliott: I think you are right about the new technology—that in the past the technology has not always existed to make that easy. We are, quite rightly, the custodian of our customers' money and a lot of their data, and over time what we are finding is that that data is of incredible value to our consumers. But we are the custodian of that and we have a responsibility to keep both the money and the data safe and secure. But it is our customers' data and, if they choose to make that available to other parties, whether it is other banks, fintech or whoever, absolutely we should enable that. Our responsibility is to make sure they do it in a safe and secure way. So there is no resistance from ANZ or from me for doing that; but, as I said, it comes with making sure that there are processes in place to ensure. I think we all know somebody who has been the victim of fraud, phishing attacks or any kind of data-integrity issues, and we just need to make sure that our customers are protected in the process. But that is not an argument for resisting it.

CHAIR: So you have not historically opposed the opening up of data and account portability?

Mr Elliott: I think as an institution we may have. I have not and we do not at this point today oppose it at all.

Mr Hodges: If I may, it is around safeguards around this. I think that, as Shayne said, the issue with customers and the way they manage their finances and also their data is that in most cases it is responsible but it is not in all cases, and we do have a duty of care there. So I think that, if the parties who are looking to access that data are held to a certain standard, that makes that much safer.

CHAIR: Yes, but that is ultimately a matter for the regulator, isn't it?

Mr Hodges: It is, of course. Just going back to the switching, APCA put in place a process. We checked. I think we get about two or three applications a day. It takes about 24 hours for that data to be processed through. So there is a process. It is clunky; you are right. It was put in place some years ago, and technology has moved on, and I think there is an easier way of doing this.

CHAIR: It is a process that has completely failed and does not work. What I think the committee will certainly be interested in looking at is: how do we get a process that actually works for consumers so that consumers can much more easily get rid of their bank when they are not happy with the service that they are getting? It is something that I suspect we will come back to.

I want to move on to the issue about consumer redress when things go wrong in the banking system and consumers are the victims of unconscionable or unlawful behaviour by their bank. As you know, we have the Financial Ombudsman Service at present, the Superannuation Complaints Tribunal and also the Credit and Investments Ombudsman. That is currently being reviewed by Professor Ramsay. A number of people—colleagues of mine and others—have proposed the idea of a banking tribunal, which would be a one-stop shop to enable a practical resolution of individual consumer complaints. So, whether it is a wealth management matter, a matter related to the insurance arm of a bank or any matter related to a bank, the consumers would have one place to go, a simple, transparent process that would enable redress to be achieved in a cost-effective way. Again, this is something the committee is obviously likely to be interested in looking at, so I was interested in your view on that proposal and also the suggestion that your industry should pay for it. You benefit, obviously, from the deposit guarantee and other forms of assistance, both explicit and implicit. What is your attitude towards a banking tribunal?

Mr Elliott: I think it is a good idea. We have no issue with a banking tribunal and no issue with supporting it. I think the challenge is making sure that whatever process is put in place is simple and efficient for customers.

CHAIR: Thank you.

Mr THISTLETHWAITE: Mr Elliott, recently the RBA governor, Philip Lowe, said in respect of the banks:

… there have been too many examples of poor outcomes, particularly in the wealth management and insurance industries.

The head of the Australian Bankers' Association, Steven Munchenberg, said there are 'legitimate issues' in the industry and that 'banks accept that in the past they have not always lived up to their own standards, let alone those of their customers'. You have just admitted that you have on occasions fallen short of your own standards and there have been poor outcomes, and you have apologised. Can you outline some of those poor outcomes for the committee today.

Mr Elliott: Sure. It means that on occasion we have had customers—going to the chairman's point—who have been charged fees incorrectly. We have fixed that. We have had customers who have not always received quality advice. We have had a situation—in particular, going back to the wealth and financial planning—where people actually were being charged a fee and not receiving advice at all. So we have made mistakes; there is no doubt about that. As I said, our responsibility is to find them quickly, redress them and make sure that our customers are put back into their rightful position as a result.

Mr THISTLETHWAITE: When you undertake these investigations and you find poor behaviour, do you always report these incidents to ASIC?

Mr Elliott: Yes. Recently, for example, in terms of financial planners, we have reported 45 financial planners to ASIC, 40 of whom no longer work with the group.

Mr THISTLETHWAITE: Over how long a period is that?

Mr Elliott: That was last year.

Mr THISTLETHWAITE: And 40 have been sacked, you say.

Mr Elliott: Forty no longer work with us. Some of them are aligned dealers, as opposed to employees. But, yes, they no longer work with us.

Mr THISTLETHWAITE: I will just move on to ASIC's wealth management project, which investigated a number of your financial advisers—

Mr Elliott: Yes.

Mr THISTLETHWAITE: and issued temporary or permanent banning orders. In ANZ's case, there were three in recent times: Wayne Meadth, Ben Cheung and Craig Miller.

Mr Elliott: Yes.

Mr THISTLETHWAITE: Can you outline the circumstances in which those people found themselves the subject of banning orders by ASIC.

Mr Elliott: We undertook our internal processes, an audit effectively, to look at the work and the quality of the advice that they were providing and to ensure that it met our standards. In one case, that was clearly not—Mr Cheung had essentially falsified some documents and signatures. We reported that to ASIC. He received a ban of 10 years as a result. The second case: as we announced the fact that we were looking into his affairs, he resigned and went to another employer.

Mr THISTLETHWAITE: Which one was that?

Mr Elliott: Mr Meadth. We also reported him to ASIC and he received a one-year ban, I think in June of this year, which he is contesting. The third one: I am not familiar with all the details of Mr Miller, but we find through our own processes, issues—we always report them to ASIC and then we work on a remediation program with ASIC for the customers that are involved with that.

Mr THISTLETHWAITE: So, when you do find these instances, do you then go back through the client files—

Mr Elliott: Absolutely. Just to give you an example, what happens there is we go through the files and we work with ASIC to agree on what is the right remediation outcome. Sometimes that takes a little time, because we have to do the process, but absolutely we do that.

Mr THISTLETHWAITE: And do you advise the clients of those planners of the banning orders?

Mr Elliott: The banning orders are of public record. We have not to date physically specifically advised all of those clients. We are going to, and I agree that there is a gap in our process there—we should.

Mr THISTLETHWAITE: Why haven't you in the past?

Mr Elliott: To be honest, I am not really sure, but it is a matter of public record that they are banned.

Mr THISTLETHWAITE: Not everyone checks the ASIC website on a daily basis.

Mr Elliott: I agree with you. I am not making an excuse for it. I agree. And in the future we will write to those customers and explain what has happened. But they all get assigned to a new financial planner immediately.

Mr THISTLETHWAITE: So when will you start writing to customers?

Mr Elliott: As of now.

Mr THISTLETHWAITE: And what about compensation for clients in circumstances such as this? If the financial planner has been found to have acted inappropriately—in some cases, illegally, particularly forging documents—do you offer compensation?

Mr Elliott: We work with ASIC to make sure that we put the customer back in the position they would have been in otherwise. So, yes, if they have been harmed in some way, absolutely we do that.

Mr THISTLETHWAITE: Was the board briefed about these issues associated with the banning of these planners?

Mr Elliott: Certainly the wealth business has its own independent boards with its own non-executive directors—absolutely within that chain of command, if you will, absolutely will have been advised. I would have to check whether our group board, but I am sure they would have—our group board would have probably been advised. I would have to check specifically how that came through.

Mr THISTLETHWAITE: Can you perhaps take that on notice and check and come back to us?

Mr Elliott: Sure, yes.

Mr THISTLETHWAITE: On Friday the Labor members of the committee wrote to you and asked you to present documents to the committee in respect of those cases. Are you able to present those documents today or in the future?

Mr Elliott: We received advice from the chair that any request for documents should come through the committee chair, and if they do come to us we will respond, absolutely. And we are preparing those just in case, yes.

CHAIR: Yes, you will be receiving a request.

Mr THISTLETHWAITE: So you are going to—

Mr Elliott: Yes, absolutely.

Mr THISTLETHWAITE: I just want to move to a different case. This is the case of Radhika and Pankaj Oswal.

Mr Elliott: Yes.

Mr THISTLETHWAITE: It is a long-running dispute over the foreclosure of one of their businesses. I am by no means defending the actions of these individuals at all, but during this case it was alleged in an affidavit to the Victorian Supreme Court that Pankaj Oswal had confessed to ANZ representatives that loans worth $900 million were obtained on the basis of forged documents.

Mr Elliott: Yes.

Mr THISTLETHWAITE: It was also alleged that, instead of reporting this to ASIC, the police and other relevant authorities, ANZ required Mr Oswal to sign over guarantees on other parts of his business, which the bank then subsequently foreclosed on. What steps did ANZ take to investigate Mr Oswal's confession that he secured loans on the basis of forged documents?

Mr Elliott: This first actually came through a whistleblower and was reported to APRA, and it was reported in October 2008. APRA advised us that we may have advanced moneys on the basis of a forged document. We investigated that through an independent legal firm, and at that time they could find no evidence of that. However, we continued to investigate whether there was in fact a forgery. Without going through all the details, you are correct: in December 2009 Mr Oswal admitted to senior executives in ANZ that he had falsified the documents. And all the way along, obviously we are keeping APRA informed.

We still had no actual evidence that that was the case, but he said he had done it. We advised our board. We advised the police, at some point not too far after that, once we found the evidence that it was, in fact, fraudulent. It involves another bank in Europe. It took some time to investigate.

Mr THISTLETHWAITE: Doesn't it trouble you that your internal investigations, prior to him admitting that he had forged documents, concluded that he had not?

Mr Elliott: It was not internal; it was external. It was an external legal firm. We did not do an internal. We went and got experts to come in and look through all the documentation.

Mr THISTLETHWAITE: Doesn't that in itself trouble you—

Mr Elliott: Yes.

Mr THISTLETHWAITE: that they didn't find it.

Mr Hodges: That investigation went to the bank in Europe who was allegedly provided the guarantees. It took some time for them to investigate whether the documents were, in fact, legal or not legal. So they had to do their investigation as well. It was a very detailed and intense investigation, as you could imagine, given the amount of money involved. It got to a point where there seemed to be enough evidence that it was fraudulent. Once we got that information, then we quickly moved to let the authorities know.

Mr THISTLETHWAITE: I understand that you continued to deal with Mr Oswal, despite the fact that these allegations of fraudulent behaviour—

Mr Elliott: When you say 'deal with'—this was a project to build a fertiliser plant. A half-finished fertiliser plant is worth less than a vacant piece of land. So it was in everybody's interests that the project get finished. If that is what you call 'continued to deal with', absolutely. It was in our interests to secure the value of the project that it should continue.

Mr THISTLETHWAITE: But I am advised that you entered into further commercial dealings with this individual despite the fact that the allegations of forgery were sitting there—

Mr Elliott: No, the only commercial—

Mr THISTLETHWAITE: in the form of further loans and credit.

Mr Elliott: Only in relation to completing the project. It is the bank's shareholders' interests to protect the value of what we have lent against. As I said, a half-finished fertiliser plant is not worth a whole lot.

Mr THISTLETHWAITE: Let us get this clear. You are aware of the allegations of forgery?

Mr Elliott: Yes.

Mr THISTLETHWAITE: You have asked a firm to conduct an external investigation, but you continued to loan to this individual and their company so that they could complete the project?

Mr Elliott: Again, this is happening over a period of time. At the beginning this was an allegation. It was not a proven allegation; we were investigating.

Mr THISTLETHWAITE: It was an allegation that subsequently was found to be correct.

Mr Elliott: Sure. Just because we received an allegation, I am not sure that that is grounds to stop funding what is essentially a billion dollar project. So we continued. We were cautious, clearly, but we continued. The only relationship we had with Mr Oswal and his wife was around this project.

Mr THISTLETHWAITE: Who gave the authorisation to continue to enter into these further commercial dealings with Mr Oswal?

Mr Elliott: Once a relationship or a loan, irrespective of the size but certainly in this case, gets into difficulty and there are issues, it gets passed to a team we have called 'lending services' that basically work through complex situations trying to work them out in the customer's interests and also in the bank's. That was run by our chief risk officer at the time, Mr Chris Page. He was personally the person who was running this transaction to try and secure the best outcome for our shareholders but also—at the time, before we knew these documents were fraudulent—for the customer.

Mr THISTLETHWAITE: What happened with that transaction?

Mr Elliott: The project got finished and, as a result, Mr Oswal was put into default in terms of being able to pay the loans and the project was sold. It was sold in a complex way, but it was sold and now has other owners.

Mr THISTLETHWAITE: When he admitted that he had forged documents, did a relationship continue with him beyond that?

Mr Elliott: A relationship in the sense that we continued to talk to him, absolutely. At that point, we had hundreds of millions of dollars linked to him or his company that we needed to protect for our shareholders, so we have to continue to engage with him. Is that a relationship? It is not a very good relationship, clearly, but we engaged with him, absolutely, to protect our interests and those of our shareholders.

Mr THISTLETHWAITE: Despite the fact that he had admitted he had forged documents to secure those original loans?

Mr Elliott: On 15 December, he said he forged the documents and on the 21st he withdrew that and said no he did not. We were working through a complex situation here. We had a lot of money out the door and our primary responsibility was to look after our asset.

Mr Hodges: There was a joint venture partner in there as well who was an innocent party in this who was also invested in this plant. It was only right to get the plant completed where we could.

Mr THISTLETHWAITE: But it is $900 million of credit, I understand.

Mr Elliott: Yes.

Mr THISTLETHWAITE: It is not a small amount. He has admitted that he forged documents to secure those loans and you are saying that you continued to have business dealings with him and continued to ensure—

Mr Elliott: No, we said that we acted—

Mr THISTLETHWAITE: that the project was completed.

Mr Elliott: Because a completed project is in everybody's interest. It is in our interests to have a fully functioning, operating plant that can be sold to recover the debt or, even if it was not sold, that it can actually earn an income to recover that debt.

Mr THISTLETHWAITE: Was additional credit advanced to him in the wake of that admission?

Mr Elliott: I would have to go back on the timing. I am not sure whether there were continuing to be advances. I would have to come back to you on the exact dates of when the money was—obviously, the 900 is not given all at once; it is a project and it was given as it was built. I would have to check the timing on that.

Mr THISTLETHWAITE: Surely, if he has admitted that he forged documents, you would stop loaning funds to an individual who has committed a fraud.

Mr Elliott: No. What we do is we continue to have the project completed and we ensure that we document and have the right security protocols going forward to ensure that any further money that goes into that project to complete it, which is in our interests, is fully secured.

Mr THISTLETHWAITE: When he had admitted he forged the documents, did you report that immediately to ASIC?

Mr Elliott: We reported it to ASIC when the forgery was confirmed. We went through our handwriting expert to see whether the signatures had in fact been falsified. That was done on 9 June, when we got that report, and very soon after that we informed obviously the police but also ASIC.

Mr THISTLETHWAITE: It was 15 December originally when he admitted that he had forged the documents.

Mr Elliott: Yes.

Mr THISTLETHWAITE: So it took you a good six months later before you reported it to ASIC?

Mr Elliott: Yes, technically that is correct. Again, this is a colourful character who admitted all sorts of things and it was a complex relationship. At that point, he admitted something, but he withdrew that admission soon afterwards and said that it was not true.

Mr THISTLETHWAITE: Shouldn't you be wary of loaning $900 million to colourful characters?

Mr Elliott: No, we shouldn't have. We made a mistake. This was wrong, absolutely. We are not debating that for a second. We let ourselves down in terms of our processes here, absolutely.

Mr THISTLETHWAITE: In respect of this issue, we requested that you supply the committee with all the internal documents regarding this matter through correspondence on Friday. Are you happy to do that in future if the request comes through?

Mr Elliott: If they come through the committee, yes, absolutely.

Mr THISTLETHWAITE: Thank you. I want to move now to the issue of the remuneration structures in your bank and incentivising products being pushed on customers when they may not be in their best interests. Are your frontline staff required to try to sell products to customers when they come in to the banks to do their ordinary banking?

Mr Elliott: When we talk about frontline staff, is that in a neighbourhood branch, for example?

Mr THISTLETHWAITE: Yes.

Mr Elliott: The staff there actually have a balance scorecard. Around a third of those measures are in the category of financials and that would include things like perhaps the number of products sold or something like that, or the value of products sold et cetera. But it is around a third. The other two-thirds are things like customer satisfaction, so the customer goals are actually bigger. Are customers happy with the service that they are receiving? Then there are other goals around risk and values and other things. So there are some but they are limited in scope.

We do not have a one-for-one sales commission. Our tellers do not receive sales commission for selling product. They do get an incentive for referring customers to a specialist. So if a customer walks in and wants to talk about a home loan or superannuation, the teller is incented to refer them to a specialist. Those incentives, on average, make up for much less than 10 per cent of their total compensation. For most people, it is two, three or four per cent of their full year's remuneration.

Mr THISTLETHWAITE: You referred to them, I think, as financials.

Mr Elliott: Yes.

Mr THISTLETHWAITE: Can you give a bit more detail for the committee of what is included in that category of financials?

Mr Elliott: Financials would be things like deposit balances, home loan balances, transaction accounts or things like that. A lot of them are balance driven rather than numbers.

Mr THISTLETHWAITE: Credit cards?

Mr Elliott: They would probably fall into some of them, not all of them. It would depend on the actual person.

Mr THISTLETHWAITE: Insurance?

Mr Elliott: Insurance depends. Again, not all people in a branch are authorised to offer insurance products, depending on their licensing et cetera. It could.

Mr THISTLETHWAITE: Is it true that ANZ uses a computer system which will capture data about a bank customer's spending habits and trends and push that data to a branch, and therefore individual employees within that branch, and then ask them to contact those customers to go through, I think, what is called an A to Z interview—

Mr Elliott: Yes.

Mr THISTLETHWAITE: and try to push products onto them?

Mr Elliott: Yes. Look, an A to Z review, in our view, is a really good thing. It is a way to sit down with a customer and go through: what are their life goals, what is their current financial position and what would be the best and most suitable products and services for them going forward? It is a conversation that takes a reasonable amount of time. It is done electronically now, today, on iPads. It is all recorded. It is all audited to make sure that the right advice is given. The customer gets emailed a copy of that conversation, they have it with them when they go home, et cetera. So it is a process that is a healthy one. What we do, yes, is we encourage and we use a system to go through and identify, for example, if perhaps you have too much debt; if you have a high amount of revolving debt on your credit card and you would be better off having that in a personal loan where the rates are lower. Or perhaps you have a lot of lazy money sitting around in an operating account that is not earning interest and you would be better off having that in a term deposit. Absolutely we use transactional data to go and offer customers better outcomes.

Mr THISTLETHWAITE: Does it include, if a customer may have made a payment on an ANZ credit card with a cheque from a rival institution, that you would target that individual and try to bring them over to one of your products?

Mr Elliott: I do not know the specifics of that. I would have to go and check. I will come back to you on that one. I will see.

Mr THISTLETHWAITE: If you could—

Mr Elliott: Sure.

Mr THISTLETHWAITE: that would be helpful. For being involved in this scheme and trying to sell these products and do these referrals, there is a bonus scheme that you have in place—

Mr Elliott: Yes.

Mr THISTLETHWAITE: associated with this in your bank, isn't there? Is this called the ARD service staff incentive scheme?

Mr Elliott: Yes.

Mr THISTLETHWAITE: Can you give us an overview of how that works.

Mr Elliott: As I mentioned before, it is a balanced scorecard process. It takes into account a wide range of metrics, depending on where that branch is, what the opportunity is—that particular geography—and the experience of the individual: whether they are new or an experienced person. It sets them some targets. They are balanced across all sorts of scores and if they do well on those things they get a performance payment, as I mentioned. On average it is a relatively small part, certainly less than 10 per cent, of a total compensation for a frontline staff member.

Mr THISTLETHWAITE: So each staff member receives a performance rating in terms of how they have gone over the last half year or year—

Mr Elliott: Yes.

Mr THISTLETHWAITE: in selling these products?

Mr Elliott: Not in selling products, in performance rating—their overall performance. And a really big measure of that is customer satisfaction. We have real-time customer feedback. We get that every single day. So if you do have an A to Z review or you do have a contact with a contact centre, you are asked, through all sorts of means—emails, texts et cetera—to comment on that service and say whether you are happy or not. That metric absolutely goes into the remuneration outcomes for our people, and that is one of the key drivers.

Mr Hodges: We get about 700 of those a day.

Mr THISTLETHWAITE: Seven hundred of those a day?

Mr Hodges: That have generated that sort of customer feedback. They are getting constant feedback from customers, in terms of the interactions they are having with their staff, to measure how they have gone in that sort of measure, which, as Shayne said, is the largest of the measures that people are assessed on.

Mr THISTLETHWAITE: And that information will go to the branch manager?

Mr Elliott: Yes.

Mr THISTLETHWAITE: And the branch manager may then email the staff throughout the day saying: 'This person is performing well; this person isn't performing well. You need to lift your game'?

Mr Elliott: No. It would not be during the day like that, no, not at all.

Mr THISTLETHWAITE: Are you saying that that is not happening anywhere in your bank?

Mr Elliott: I am sure that there are branch managers who work really closely with their teams during the day to make sure that they are doing the best that they can for customers and who make that a kind of interactive thing. It is not a formal process in the bank but, again, a good branch manager is working with their team to make sure they are doing the right thing by customers, and having daily contact with your people is probably a good thing.

Mr Hodges: Actually, they do sit with our staff when they are doing these A to Z reviews to check, coach and see how well they are doing them. That sort of daily interaction within the branch network does happen. That is what you would expect branch managers to do.

Mr THISTLETHWAITE: Do you compile leaderboards for branches and how they are performing?

Mr Elliott: Yes. Those leaderboards are on a range of statistics—not just on sales—and they are generally relative to the opportunity. We do not measure a small rural town against Sydney CBD branch on an equal footing. So it is against the opportunity but it is not just on sales; it is on all sorts of things. Customer feedback, for example, is a really important one. There are all sorts of metrics they get ranked on.

Mr Hodges: Occupational health and safety issues.

Mr Elliott: So they get to know where they are, and that is important.

Mr THISTLETHWAITE: And the information is distributed throughout your network through your computer system?

Mr Elliott: Yes. The idea is that it looks for where there are outliers. If somebody is underperforming, we send in coaches. We can understand if there is something happening in that community, if there is something wrong with the branch, if the people are not getting the right training, if they need help, et cetera.

Mr THISTLETHWAITE: I have run out of time. I have more questions about Timbercorp, credit cards and transaction bank fee refunds. If the committee so decides that we would like you to come back and give further evidence this year, would you be willing to do that?

Mr Elliott: Yes.

Mr THISTLETHWAITE: Thanks.

Ms BANKS: Mr Elliott, the Turnbull government wants this inquiry so we can cut to the chase and get things fixed quickly and efficiently for all your customers and, indeed, for banking customers around Australia. You yourself said that you take values, culture and the way your employees perform very, very seriously and that you hold yourselves totally and absolutely accountable, which is perfectly understandable. You have said that clearly there have been mistakes made in the past, for which you apologised. You have been in this role since January 2016, but is it correct to say that since 2009 you have been in the role of chief executive of the institutional banking division?

Mr Elliott: I was, for three years. From June 2009 to the end of 2011, I was the head of institutional banking, that is right. I was the chief financial officer in the intervening period.

Ms BANKS: To go back to your point where you said that each time you fall short you affect your customers and for that you apologise, are you apologising just for the nine months you have been in that role?

Mr Elliott: No.

Ms BANKS: So does your apology cover the period of 2009 when you were obviously the leader of the institutional banking division?

Mr Elliott: That apology covers two things. First, absolutely it is a personal apology for the businesses that I led and the roles that I have. But as the chief executive I am responsible for all of the activities of ANZ, whether I was there or not. So those apologies are for things on behalf of our institution and me personally. Some of those things I was not around for, but that does not alter the sincerity of my apology that the organisation let people down.

Ms BANKS: Do you think, as a CEO who earns millions of dollars, that it is okay to answer questions here by saying, 'Yes, we made a mistake, we fixed it and I apologise'? How many times can you say that? Do you think that is adequate?

Mr Elliott: I think it is a reality of large organisations that when things go wrong our responsibility is to fix them, to make sure they do not happen again, to apologise and to make sure that our customers are treated respectfully through that process. When that goes wrong, I have to apologise. But the reality is that most things do not go wrong. Actually, most of our customers are very satisfied with the bank.

Ms BANKS: Absolutely, it is the reality of large organisations for which I myself have worked for the last 20 years, but it seems that ANZ Bank has had a systemic issue with inappropriate conduct of its employees for which you are apologising and continuing to apologise. My question to you is: have you heard of the principle of proactive compliance frameworks?

Mr Elliott: Not specifically.

Ms BANKS: It seems to me that the ANZ Bank is employing a reactive compliance framework in relation to the conduct of its employees. I go to the employees involved in the BBSW saga, which ASIC has taken action on. You said that you work with ASIC. Is it true to say that you work with ASIC when it suits you? Indeed, some of those employees have been reinstated.

Mr Elliott: No, we do not work with ASIC when it suits us; we work with ASIC all the time. We have an obligation to do so and we do. We reinstated those employees because they had done nothing wrong. We had taken a conservative view of standing them down while we conducted our investigation. That is the most conservative stance of any of the banks that have been through this process. But at some point we have to respect the fact that if our employees have done nothing wrong they are entitled to come back to work. And remember, where we found wrongdoing—which has nothing to do with the ASIC allegation about market manipulation; this was code of conduct violations—we fired those people.

Ms BANKS: I have worked across many employee termination and dismissals and employee conduct matters over the last 20 years as general counsel for large organisations. Clearly, quite often, it is hard to identify what specifically is in breach from an employee perspective. But overall you would agree, would you not, that culture is key?

Mr Elliott: Sure.

Ms BANKS: And culture is necessarily defined by the leader?

Mr Elliott: Yes.

Ms BANKS: It was reported in the *Sydney Morning Herald*, in quite a comprehensive manner, that the two employees that were part of that BBSW saga who you sacked made allegations about adult entertainment, drug taking, all sorts of behaviour. It was a clear breach of your employee conduct—and that you did that.

Mr Elliott: Yes.

Ms BANKS: So, again, how could that sort of behaviour happen and be conducted without you becoming aware of it? Is there a failing in your risk management framework, such as your whistleblower framework? Because, according to their data and statistics on their unfair dismissal claims, it was clear that there was this endemic blokey culture in the institutional banking sector of which you were the leader.

Mr Elliott: First of all we should remind ourselves who is making these allegations and that it is in their interests to make such allegations. Unfortunately, there were a small number of people in the markets part of institutions, not across all of institutional banking but in the markets business, who behaved appallingly. And, when we found out about those, we acted immediately. We did not take out time.

Ms BANKS: When did you find out about those, though?

Mr Elliott: Personally?

Ms BANKS: Yes.

Mr Elliott: I found out about those particular activities, essentially, towards the end of last year.

Ms BANKS: And this was as a result of the ASIC investigation?

Mr Elliott: It was the result of our own investigation in response to the ASIC questions. Yes.

Ms BANKS: So ASIC alerted you to it?

Mr Elliott: No, ASIC did not alert us to the conduct behaviours.

Ms BANKS: ASIC put you on notice about conduct of various employees?

Mr Elliott: No, ASIC did not put us on notice about conduct. They put us on notice—

Ms BANKS: So this conduct is going on. Who advised you of the inappropriate conduct?

Mr Elliott: So what happened is ASIC advised us about their concerns around activities in the BBSW market. The people in that business use chat systems, technology to talk to each other, and part of that was the evidence around whether some of that was evidence for the ASIC case. We went and looked at literally millions of chats and conversations. In doing so, in order to satisfy ourselves around the ASIC questions, we found other things, to do with poor behaviour and conduct. ASIC had not mentioned any of that. We went through those. We found those. They were wrong. We investigated and we acted. And, as a result of that, we have changed—

Ms BANKS: But for the ASIC investigation, you would not have identified that inappropriate conduct of those employees, because you would not have done that investigation of those chats.

Mr Elliott: I think that is a fair comment in terms of at that time. We do have robust whistleblowing processes. None of that had come to light. That is wrong. What we have done now is we have changed some of those processes. We have improved. We have done a lot more ethics training in that business. We have increased the resourcing around monitoring of conversations. There were some loopholes in some of that—for example, we were monitoring email conversations between employees—to make sure bad language, disrespectful comments et cetera, code of conduct—but we had missed these chat room pieces. So we have changed some of the processes. That was a failing.

Ms BANKS: So have you, personally, in your leadership team, tested your whistleblower policy, done a mock test of it?

Mr Elliott: I have not personally tested it. I get a report on that every month. We have multiple ways of whistleblowing, including through independent channels, and we do have it tested through one of our service providers, but not me personally, no.

Ms BANKS: Have you heard of the concept of kaizen, which is used in large manufacturing organisations around the world?

Mr Elliott: I have heard of it.

Ms BANKS: Put simply, it is where the person from the top goes and sees for himself how things work; it is amazing what they uncover.

Mr Elliott: Yes.

Ms BANKS: That is part of a proactive whistleblower risk management framework.

Mr Elliott: Since I started—and I am happy to provide records of this—I have spent an extraordinary amount of time in branches, in call centres, in collections teams and in lending services talking to customers et cetera.

Ms BANKS: I appreciate that, and you have an illustrious career. But, indeed, in relation to the whistleblower policy, which goes directly to your employees' conduct and which is intrinsically linked to the satisfaction or, more likely, the dissatisfaction of your customers, it is a really important facet to put into a whistleblower policy.

I would like to go to the ABA six-point plan, because you, along with the other banks, agreed that you would look to providing more support for employees who blow the whistle on inappropriate conduct and to removing individuals for inappropriate conduct. We have looked at that. We have reviewed the principles of those employees that were described in the *Sydney Morning Herald.* The conduct that was described and that has come out in the media from time to time, particularly about the ANZ, in relation to this inappropriate conduct is that it is very blokey, adult entertainment, drug-taking—all that sort of stuff. I want to refer to your predecessor, Mike Smith, who has really promoted himself as one of the significant Male Champions of Change. Have you taken on that mantle?

Mr Elliott: Yes.

Ms BANKS: What does that mean?

Mr Elliott: The Male Champions of Change?

Ms BANKS: Yes. What is your key objective?

Mr Elliott: My key objective is to make sure that we have an open, fair, transparent and diverse workforce where everybody has a fair go. If you want to talk about specifics, we clearly have a diversity challenge in our industry. It is more pronounced in some parts of the bank than in others. We have actually made pretty good inroads. In terms of our senior leadership today—and we have some definitions: people with serious responsibility across the organisation—about 40 per cent of those roles are held by women; not enough of the most senior roles, but we have seen significant improvement in that in the last couple of years. I take the Male Champions of Change pretty seriously. It has been an opportunity to learn from other organisations and see best practice, and we do.

Ms BANKS: The Male Champions of Change is clearly, as I understand it, a focus on women in leadership. Have you read my maiden speech? It is not out of some narcissistic request, that one; but, have you read it?

Mr Elliott: No, I have not.

Ms BANKS: I talk a lot about unconscious bias, and I want to talk about that in relation to your customers and your employees. We have described what are clearly issues, from your own admission, in relation to the culture in the bank. I know the ANZ Bank have done a lot of work at the senior level on unconscious bias training. Have you done that training at the lower level—the people who face the customers—in terms of unconscious bias?

Mr Elliott: I would have to go and check. I know that we have done an extraordinary amount of training around unconscious bias, but I would have to go and check how far down into the organisation that has gone.

Ms BANKS: I suspect you haven't done it, because you would have talked about it if you had done it. I have done a lot of research into this. My question is: have you done it in relation to those who deal with the customers—so, the managers who deal with the customers? Are they trained in unconscious bias and in identifying their unconscious bias? Basically, what I am getting at here, Mr Elliott, is: with that backdrop of a blokey culture, can you say from your heart of hearts that female customers are treated as fairly as male customers?

Mr Elliott: First of all, this idea that the entire bank has a blokey culture, frankly, I reject that. In fact, if we look at the vast part of the bank, when we are talking about retail customers—branch-land—that is overwhelmingly run by very, very good women.

Ms BANKS: If you could just answer the question. Do you believe you have done unconscious bias training insofar as it relates to dealing with the customer?

Mr Elliott: I answered—

Ms BANKS: One little aside on that is that my maiden speech was made up of different stories. It is not that long ago that I was applying for my first home mortgage, and a general manager—smarmy, smirky, clearly one of the blokey culture—said that he would only factor into account my husband's income, not my income, because I was a married woman of child-bearing age, even though I was a fully qualified junior corporate lawyer. That is what I am getting at. There are millions and millions of women, as we go into a flexible workplace, who are setting up their own small businesses, and that is what we are about—

Mr Elliott: Yes, I agree.

Ms BANKS: Would you think it is a good idea that the banks would train their customer-interfacing staff in relation to unconscious bias when they are dealing with female customers? As a segue to that, would you agree that that is a good idea?

Mr Elliott: Yes.

Ms BANKS: The segue which I will conclude my questioning on is Mr Coleman's point previously in relation to a tribunal. Clearly, there are a lot of people out there who have issues with the bank, and we have outlined those issues today. A one-stop shop where a disputed claim could go so that a consumer or a bank customer gets a ready, fixed, clear, agile result and a deliverable outcome: what are your thoughts about that?

Mr Elliott: As I said before, I think it is a good idea. We would never oppose anything where customers have an avenue for raising issues and seeking a timely and efficient resolution with us. I absolutely support that.

Ms BANKS: I am assuming that that organisation would be part of ASIC or, indeed, the ACCC, where they would have increased interventionist powers such that—

Mr Elliott: Sure. Absolutely.

Ms BANKS: the internal workings would have to align to those.

Mr Elliott: Absolutely.

Ms BANKS: Thank you.

Mr CONROY: Thank you for appearing today, Mr Elliott and Mr Hodges. I should acknowledge at the start that my family has a life insurance product with ANZ. I want to go back to the discussion about the breach reports. I want to make sure I have this right. You have reported, in the last year, 45 breach reports to ASIC?

Mr Elliott: For financial planners, yes.

Mr CONROY: Are you aware that Mr Hodges and Ms Phillips reported to a Senate inquiry last year that, for a 12-month period preceding that hearing, they reported six breaches?

Mr Elliott: I believe that is correct.

Mr CONROY: We have a 750 per cent increase in breach reporting in your financial management arm over a 12 month period?

Mr Elliott: Yes, that is mathematically correct.

Mr CONROY: What is going on in your organisation, Mr Elliott?

Mr Elliott: What is going on in the organisation is that we are paying due care and we are doing a lot of audits and checking to make sure that we are acting in the interests of our customers. We are raising the standards at which we operate, and, as a result of that, when we find problems we report them.

Mr CONROY: Mr Elliott, there are two ways this can be interpreted: either there has been a massive jump in breaches in the last year—a 750 per cent increase—or there have been very significant breaches previously that you have not caught. In your last answer, you seem to be siding with the second explanation.

Mr Elliott: That is a good question. I think that when you look at the cases—without going through all 40, and I do not have the details on all 40—many of them relate to reasonable periods of time. So, yes, some of this is a bit of a catch-up; you are absolutely right.

Mr CONROY: In that testimony—

Mr Elliott: As I mentioned, that is about raising standards.

Mr CONROY: In your bank's testimony last year, they stated that they had about 1,080 financial planners. Is that roughly still the number now—broadly?

Mr Elliott: I believe so.

Mr CONROY: That means that five per cent of your financial planners, or one in 20, are committing breaches.

Mr Elliott: Not all of them are financial planners. Some of them belong to aligned dealer groups. The total population is more like 2,000 rather than 1,000.

Mr CONROY: It is still a significant number. We are talking about one in 40 of your employees in this area committing ASIC breaches.

Mr Elliott: Had committed?

Mr CONROY: Had committed.

Mr Elliott: Yes.

Mr CONROY: That seems to me a pretty significant ratio in your staffing.

Mr Elliott: As I said, we have raised standards and we have found past wrongdoings. We are acting on it.

Mr CONROY: Can I ask why five of them were not dismissed? You said 40 were.

Mr Elliott: Some of them are still being investigated and are still going through the cases, to be fair. One or two of them were to do with the fact that, when you looked at the breaches, they were essentially technical in nature and not as egregious as the others.

Mr CONROY: Can you inform the committee of the amount of compensation you have provided to your clients in the last year?

Mr Elliott: I would have to come back to you on that.

Mr CONROY: Would you also come back on the last five years as well?

Mr Elliott: Yes.

Mr CONROY: How many homes or businesses has ANZ foreclosed on as a result of the loans linked to Timbercorp?

Mr Hodges: I do not believe ANZ has foreclosed on any.

Mr CONROY: I know your main one was Timbercorp itself, but I am interested in—

Mr Hodges: The issue here is that ANZ financial advisers did not have Timbercorp on the approved client list. So we neither loaned to Timbercorp for individual investors nor provided any advice to that—

Mr CONROY: You had one subsidiary that did.

Mr Hodges: ANZ didn't. When we acquired the ING business, in 2009, some of those planners had done, and that obviously then became part of our responsibility. Obviously we are a corporate lender, and we provided a corporate loan and a securitisation structure with other banks as corporate lenders to Timbercorp. So there would not have been a case I can conceive of where we would actually have foreclosed on anyone, or taken anyone's home, as a result of that.

Mr CONROY: So you are testifying to this committee that not a single ANZ customer has lost their home or small business as a result of lending by you for investment in Timbercorp?

Mr Hodges: We did not provide any finance to Timbercorp, that we are aware of, directly through financial planners. A customer may have come into ANZ and borrowed themselves, without advice, and invested in Timbercorp, which we may be unaware of.

Mr CONROY: Could you take that on notice and come back to the committee.

Mr Hodges: I do not know how I would know whether someone has come in and borrowed some money from ANZ, for whatever reason, and then invested in Timbercorp.

Mr CONROY: If I go into a bank and say, 'Can I borrow $20,000?' they are not going to give it to me. They are going to ask me what it is for.

Mr Hodges: It could be for investments, and it could be that you have invested at one stage in something else and then at another stage in Timbercorp. We will certainly examine that issue for you.

Mr CONROY: I want to go back to the operation of the incentive structure in the branches, which the deputy chair started exploring. You talked about the incentives for frontline staff. Is encouragement for referring customers to your product lines purely limited to incentives? Is pressure placed on employees to do that?

Mr Elliott: There are standards expected. For example, in a branch we would expect you, as a good personal banker, to be referring perhaps one customer a day to a specialist. There would be standards like that. That is how we would define good performance.

Mr CONROY: The leader board that each branch manager gets emailed about would also place pressure on them that would then relay through to their staff. If a bank manager is down the bottom and there is a threat of either coaching coming in or their own salary being at stake, it is quite natural for them to go to their staff and say, 'Why aren't we referring enough people on? You need to lift your game.'

Mr Elliott: Our view is that referring customers to a specialist to have a quality conversation about their financial health is a good thing. If branches are not performing that role, that raises questions. It may well be that no customers in that particular community need that advice. That is fine—that is what we go and look at. But, as a general observation, there are a lot of people in Australia who are under financial stress. They have questions about superannuation, buying a home, investing or whatever. So it is an encouragement for people to do the right thing. Again, the encouragement is to have a conversation. The incentive is not paid on whether the conversation leads to a sale. It is a case of: 'Let's just make sure we're talking to people.'

Mr CONROY: Are you confident that none of your bank managers have placed pressure on retail staff, the tellers, who have already satisfied their minimum referral target—one a day, or whatever it is—to go above and beyond?

Mr Elliott: No, and I am not necessarily sure that that is a bad thing—

Mr CONROY: It is a bad thing if it is not pure encouragement but actual pressure, if you are saying: 'You've achieved your target but I still want you to do more to make me look good.'

Mr Elliott: That is your articulation of it. Again, if we believe that having good conversations with specialists is a good thing, then generally more is better. I am not sure we should say to our branches: 'Once you've hit a number forget all the other customers.' We should constantly be encouraging our people to have quality conversations with our customers. If people in the branches feel they are under duress, under pressure or being harassed, there are avenues for them to report that, and we take that very seriously.

Mr CONROY: We have had discussion here of the blokey culture in aspects of your business—and I note your response. We have had discussion about league tables placing pressure on bank managers and bank staff to maximise referrals. We have had testimony here that you delayed by over six months reporting to ASIC and police a potential fraud. We have just heard that you have had an increase of 750 per cent in breaches by your financial managers. Are you proud of the culture of ANZ?

Mr Elliott: I take issue with some of those. We did not delay six months in terms of reporting the fraud. Once the fraud was proven and we had a case to take to the police we took it to the police immediately and to ASIC.

Mr CONROY: Are you proud of the culture of your bank?

Mr Elliott: I am proud of the culture of our bank. Having said that, I admit that we have made mistakes but the right culture as a company—and our culture—is to admit it, to accept it, to fix it, to do the right thing by customers and to improve.

Mr CONROY: I would like to go to competition for my remaining time. Standard economic theory has that, if a market is open and competitive, returns on equity profits should return over a reasonable length of time—say, 10 years—to being slightly above the cost of capital. Do you accept that as a fundamental premise of—

Mr Elliott: As a general proposition, yes. There are all sorts of caveats, but yes.

Mr CONROY: I understand the caveats but generally as a proposition returns on equity should be slightly above the cost of capital in an efficient and competitive market.

Mr Elliott: Yes.

Mr CONROY: Mr Elliott, can you tell me—and I am not asking for specific product lines—in your credit card part of your business what your return on equity is over, say, 10 years?

Mr Elliott: I think you went through this yesterday with another bank. It is difficult for us to disclose that without giving away competitive information. The reality is that returns on the cards business are higher than average. That is undoubtedly true. They have been reducing at a fairly healthy rate, at a fairly fast rate. Over the last 10 years they have come down a lot. That is to do with the fact that there are increases in terms of the cost of running the programs and there is the increasing cost of the rewards programs, which is one of the prime drivers that attracts people to that product, and so the returns have absolutely come down. Are they close to the cost of equity? No. They are still above our group average.

Mr CONROY: Well above? Are we talking 30 or 40 per cent?

Mr Elliott: Our group average ROE is 12 per cent. We reported at our first half 9.5 per cent ROE, so, yes, they are above our group average but are coming down.

Mr CONROY: Well above?

Mr Elliott: They are well above and they are coming down. The cards business is not a growing business.

Mr CONROY: Will you disclose to this committee—I am not asking for individual products; I am asking at the general product level—your returns on equity over the last 10 years for your credit card business, your personal loan segment and your housing loans segment?

Mr Elliott: We are happy to make some disclosures around that with some caveats. Partly the reason there is resistance around that is having been a former chief financial officer I know that ROE is not as an exact science as it might sound. Part of the reason for that is in this simple example. We run a branch network. It costs a lot of money. In order to calculate the ROE on cards versus personal loans versus mortgages I have to allocate the cost of that branch network to those products. How exactly you do that is an art not a science, so you can get very misleading answers by looking at it. But, in general, we are happy to give you the broad returns and trends on those products.

Mr CONROY: Thank you very much. On the broader issue of returns on equity in the Australian financial sector, if we had a truly open and effective banking sector, all things being equal we would expect banks in other countries that were not getting as good rates of return to be flowing into this country. Would you agree with that premise? If I am a Japanese bank making seven per cent ROE or if I am a European bank making four per cent, I would be looking at Australia to be increasing my business, given your relatively healthy returns on equity.

Mr Elliott: As a philosophical statement that is correct, but first of all European banks do not have the wherewithal to be able to do that. Part of the reason they have low returns on equity is that they have been bailed out, so the idea that they would expand and find markets is not realistic. Japan has lower rates because it has a lower cost of equity. Japanese banks, European banks, American banks and Asian banks are entering Australia. They are generally doing so in the corporate and institutional space, because it is an easier way to start and learn about the market. We have seen that, and we have seen foreign banks open. We have seen a number of Chinese banks open retail offerings in major cities, and you would expect that to continue.

Mr CONROY: Regarding the return on equity of the Australian banks, even against your hand-picked comparisons—and I am not decrying you handpicking them—you are saying they are comparable—

Mr Elliott: We are trying to figure banks that look like us.

Mr CONROY: But you have hand-picked them, and they still show the Australian average ROE over the last five years is 50 per cent more than the US banks and the Scandinavian banks and is eight times more than the UK banks. We want a healthy and sustainable banking sector where shareholders get return, but that is a greater cost for our economy—you are the lungs of our economy; your job is to allocate capital efficiently to the rest of the economy. If we are paying inflated profits compared to the rest of the world that increases costs for every single Australian who uses the banking sector.

Mr Elliott: There are different ways for Australians to pay for the use of the banking sector, and in Europe, as we have seen, they have paid for it in a different way. They put in 483 billion euros to bail out those banks because of their low returns. The Scandinavian banks have been asked to hold extremely high levels of capital, which restricts their ability to fund growth. I think that the returns here—when you look at the relative cost of equity in those markets—are not outside our international peers.

Mr CONROY: It is not as if the Australian banking sector operates just on its own legs without any assistance from government. There has been significant underwriting of our banking sector, particularly during the GFC. And even the operation of the RBA underwrites you—in terms of your capital requirements. I do not think you could imply that the European markets or other markets are in receipt of massive government assistance and there is no underwriting of the Australian sector.

Mr Elliott: When you say underwriting of the Australian sector—

Mr CONROY: For example, the RBA has stated in public testimony that the effective subsidy to the big four banks—through the 'too big to fail' concept—is $3.7 billion a year. The RBA has testified that the Australian government is subsidising your banks by $3.7 billion a year by guaranteeing certain parts of your business during crises, and through other measures such as allowing you to use risk-weighted internal methods.

Mr Hodges: I think there is a technical argument here. The Australian government does not officially support the banks. The question is: do the markets and the ratings agencies have a view that our banks are rated higher because of a perception that the Australian government would not let our banks fail if there were circumstances? That is sort of where this comes from.

Mr CONROY: It is a $3.7 billion subsidy.

Mr Hodges: It is fair to say that the ratings agencies do give us a ratings upgrade because of a perception that, as a systemically important bank here in the Australian market, the authorities would step in in some way to prevent the system from collapsing.

Mr CONROY: That was demonstrated during the GFC.

Mr Hodges: On the GFC, what happened there was that a deposit guarantee was given to all banks.

Mr CONROY: I know you paid for the facility, but I am saying that government stepped in. Regarding the return on equity argument, are you aware that the top five banks in the Australian financial industry have an 82 per cent market share, compared to 30 per cent in the United States, 50 per cent in Japan, 35 per cent in the UK and 30 per cent in Germany? Do you think that five banks having 82 per cent of the market in an oligopolistic manner is a good thing for our economy?

Mr Elliott: We are here as ANZ. We have 16 per cent market share, and we fight every day to win a little bit more of the 84 per cent we do not have. It is an intensely competitive market. Our No. 1 competitor is 85 per cent bigger than us.

Mr CONROY: You have already admitted that in certain segments, such as the credit card segment, you are getting returns on equity well above the cost of capital over the medium to long term—

Mr Elliott: There is something like 80 providers of credit cards in the market.

Mr CONROY: and we have an 82 per cent market segment. You might be one of the smaller banks of the big four, but we have five banks having 82 per cent of the market and we have returns on equity well above the cost of capital over the medium to long term. Do you think there is a problem here with competition?

Mr Elliott: No.

Mr CONROY: Market dominance? You really don't?

Mr Elliott: No. Certainly in the UK, if you look at some of those markets that you referred to and if you look at retail banking, the concentrations are higher. It is not as low as the numbers you are talking about in banking overall.

Mr CONROY: I have many more questions but the chair is wrapping me up. I appreciate your commitment to Mr Thistlethwaite to come back if the committee so chooses and I look forward to getting that data on your returns on equity. Thank you very much.

Mr BUCHHOLZ: My line of questioning today is around credit card debt interest rates, and I just want to land on a couple of points. How does ANZ calculate its risk weighting in some unsecured lending practices like card and unsecured loans? Can we start from cost of funds? When you are raising funds to go across your business, there is a cost of that business. I will invite you to be as general as you wish so that I do not move into the areas where you are uncomfortable about disclosing statistics that might compromise ANZ. You have a cost of funds and then for different product lines you will have a cost that you use to calculate risk?

Mr Elliott: Yes.

Mr BUCHHOLZ: How do you calculate that in the credit card space?

Mr Elliott: That is a really good question. I will look at the cost of running our cards business. Again, these are general comments, but they are pretty specific. Let's assume it is a completely standalone business. It is not, but let's just assume that it is. Out of all the costs of running things, the cost of funds adds up to about a quarter of the running costs. The operational costs—systems, distribution channels, report statements and all that stuff—are a little over a third of the operating costs. Some of the benefits that we give customers, such as insurance, rewards and points—all of those features—are also about a quarter of the cost. They are about the same as the cost of funds, and then there are lending and non-lending losses. What we mean by that is not everybody pays back their card, so there are reasonably large losses on cards.

Mr BUCHHOLZ: What do you call that?

Mr Elliott: We just say bad debts. There is also the term 'non-lending losses'. Essentially what that is in cards is generally fraud, so there is a reasonably high level of fraud. When you add the bad debts and the fraud, if you will, together, that is the balance of the cost. It is a little less than 20 per cent of the cost base, so there are quite a diversified number of costs that go in to making up that business.

Mr BUCHHOLZ: Is your credit card business one of your most highly profitable? I do not know how you are going to measure profit. To quantify what I mean by profit: from the cost of raising the capital and that margin spread, is your credit card business one of your most profitable?

Mr Elliott: It is not the largest in size.

Mr BUCHHOLZ: No, of course.

Mr Elliott: It is a relatively small part of the bank, if you will, but, as I mentioned before, the return on equity is higher than the average. It is not the highest, but it is one of the higher ones. The reason it is not the highest, by the way, is there are many products that we have that have really low equity requirements, so, if you want return on equity, there are two parts: how much the return is and what the equity allocated to it is. Some of our products have really low levels of equity—deposits, for example—so some other products have higher returns.

Mr BUCHHOLZ: When calculating risk, because you will have your bad debts across all product lines and not just in credit, you would see a trend of people who have excellent credit ratings who may have a credit card versus people who have a poor credit history who may have a higher chance of defaulting on that loan. Does ANZ have any appetite to reward those better, less risky clients who may have a credit card? For example, by reducing from 19 per cent, which would still be extremely high, to, say, 15 per cent? Does ANZ have the appetite to give an inducement or a reward?

Mr Elliott: It is an interesting question. Again, it is a gross simplification, but about half of the people who have a card do not run any debt—they just use it for transactional capability. If anything, you would say that is on the rise. I would say that today our experience is that consumers feel a credit card is a need—they need it just to operate their daily life and so they use it in a transactional sense. That is on the increase. We offer, essentially, three propositions. One is a low-rate card for people who are going to use it to revolve debt. It is more like 13½ per cent interest charged on that. We have another card that is a low-fee proposition. A lot of people really do not like fees and are okay with the higher rates because they only use it for short periods of time; they do not mind that. And then we have a rewards proposition, which a lot of people are attracted to. We manage it that way. Your question is an interesting one. The way the industry has developed over time has been a largely one size fits all—here is a credit card, it looks like this, it doesn't really matter about your credit history; that is the product and you choose from our menu of products the one that you think is the most suitable. I think with new technology and better risk management it's going to be easier—there has never been the scale to be able to offer that in a more targeted way. I think that is going to come and I think that's going to be part of the disruption that will come with new technology, that will allow more risk-based pricing in cards, for example, but also in personal loans and other things.

Mr BUCHHOLZ: The line of questioning comes as a result of your opening comments. In business we serve customers and without customers you do not have a business. With your opening comments around rates, you have a desire for them to be as low as possible. I would challenge you that that statement is incorrect, or unfactual, given that there is, with margin and calculated risk, ample capacity for rates to be lower than what they are at the moment, particularly in the credit card space.

Mr Elliott: As a general proposition I think you are right and I think—

Mr BUCHHOLZ: So that statement was incorrect?

Mr Elliott: No, they need to be as low as possible for us to win and grow that business and as low as possible competitively—

Mr BUCHHOLZ: Wouldn't lower rates give you a competitive advantage?

Mr Elliott: Interestingly, the facts are that the market research and the data says that, no, people buy and choose cards based on different propositions—they buy it because of the rewards, they buy it because of the fees. A lot of people do not avail themselves of borrowing at their level. The average rate paid by an ANZ customer on a credit card today is about 11½ per cent—they get interest free periods, they don't pay the rate, so it is about 11½.

Mr Hodges: About two-thirds of the people who take those high rate cards do not pay any interest on those at any month. Some do pay occasionally, and virtually none would hold debt on those cards—it is the wrong card for them if they hold debt; they should be on a low-rate card instead of a high-rate card. They are attracted by the free insurance, the flybuy points and all the other perks, and that is the reason why we spend a lot of money every year offering those, because that is exactly what they are looking for as customers. That card is not right for other people, who may be struggling to meet their payments. Shayne's comment was that we have to get people into the right card.

When I appeared at the credit card inquiry last year one of the things that we committed to looking at was how we identified early customers exhibiting hardship characteristics to make sure that they were put in the appropriate product, and we have spent quite a lot of time in last 12 months doing that. We identified, we did pilots. We identified around one per cent of our customers who were exhibiting those characteristics by going through our database. We then went and talked to those customers and found that of that one per cent, 17 per cent of those customers we felt were in pre-hardship heading to hardship. Then we had conversations with those customers to say, 'Wouldn't you be better off in this product or this product, and maybe we need to do something?' Some customers were quite offended by us approaching them and having that conversation; others found it very helpful. What we are seeing in the credit card market is that, as Shayne said, there is a very wide variety of cards available and there is a wide variety of providers of cards. I think the real key here is it is a very attractive product for many people, but having people in the right product for their circumstances is the real challenge for us as a bank, and that is what we should be doing as much as possible.

Mr BUCHHOLZ: Can I just ask for ANZ's perspective in and around the culture? When the RBA set monetary policy and move interest rates north or south for one or two reasons—to either stimulate or soften the economy—and when they are trying to achieve that with limited levers available to them, why would it appear that in the ANZ world those monetary policy settings have no effect in the credit card business? You will see the effects in the standard variables and business loans, and they may be trickled through to overdrafts and some other product lines. Why is it, when the cost of rating capital comes down across your business, that we do not see it in that credit card space? Why is it then a remote possibility that people think that is just straight out gouging?

Mr Hodges: There is one answer to that which actually came up in the inquiry your colleagues did last year. It showed that the actual effective rate that people were paying has been coming down over the last few years. So in a sense it is the rate that people have been paying, but that is not the headline rate. That is because of the structure of those products and how they work. That does reflect people switching from one product to another. To be honest, what we have seen is little growth in the credit card market and substantial growth in the debit card market, reflecting consumer trends that have been going on where consumers have been more reluctant to take on debt in the market. So there is a range of measurements going on here, but the effective rate that has been charged has been coming down in recent years.

Mr BUCHHOLZ: Given your opening comments that rates should be as low as possible, does ANZ have an appetite to look at reducing credit card rates?

Mr Elliott: Yes. Again, I started this year looking at the bank and being more exposed to some of these issues. I think there is an opportunity for us, frankly, to take a bit of leadership on this and do something better around not just the interest rate but also the fee structure and cards. I think that is in our customers' interests but also potentially in ours. We absolutely have an appetite to look at it. The reality is, as we said, the headline rate is not being paid by a lot of people. It is probably doing us more damage than good in terms of the way it looks. I think we can do a better job. I think your argument about better risk-based pricing, for example, is an absolutely valid one.

Mr BUCHHOLZ: I think this is a good day for Australians. I am sure that the Australian public would welcome that announcement.

Mr Hodges: Could I just add one last point? I think one of the things we are actually facing at the moment is where we get positive credit reporting. I think one of the challenges that will come from that is that some customers—as I think you mentioned earlier—will be perceived to be very good risk and others will be perceived to be of a greater risk. One of the challenges at the moment is that good customers probably have cross-subsidised the greater risk customers. As we get more granular around positive credit reporting, it could be that that will expose the greater risk customers more. Therefore, the pendulum may well swing such that those higher risk customers, who generally will be some of the people who do not use the card as well as they should, may well find themselves at a relative disadvantage. This is a market which has been moving through changes in product, changes in regulation and now also changes in the way it is going to be risk-managed. That is something which, as a committee, you need to keep an eye on as well.

Mr Elliott: This is exactly what happened in parts of the United States. Effectively, what happened is people who were actually in need of credit were not able to avail themselves of it at any price because everybody wants to compete against the good risk people. They were forced out of the official sector into the unofficial sector.

Mr BUCHHOLZ: I have absolute confidence in your modelling with risk assessment. The fact remains that it is a relatively low cash rate. I understand that is not the only decision in raising funds. It is a highly profitable part of the business. I simply linked your opening comments to them being as low as possible and welcome the fact that you have indicated an appetite to reduce those rates in the immediate term.

CHAIR: Thank you, Mr Buchholz. We will now take a 10-minute break.

Proceedings suspended from 10:59 to 11:09

Mr KEOGH: Mr Elliott and Mr Hodges, the first thing I wanted to note was that I possibly, unfortunately, hold one of those high-interest, high-fee credit cards that you offer, and in my former life worked for one of the law firms that was an adviser to ANZ on a number of matters.

In terms of questions, I want to turn to credit cards and, in particular, some of the findings coming out of the Senate inquiry from last year. It noted that, at that time, the average headline rate for interest on credit cards was 17 per cent and that the spread at that point was approximately 15 per cent from the RBA rate, but that in 2007 that spread was as low as eight per cent. I understand there are other costs that have come into the business, but that still seems to mean that you are looking at an average profit of around 10 per cent across the range of cards. Is that right?

Mr Elliott: Yes. It is something like that, absolutely. As I said, the average rate paid by an ANZ customer today is about 11½, so, yes, you could call it 10 or thereabouts. But that 10 has to cover the cost of fraud, the cost of losses, the cost of the rewards, the cost of insurance, the cost of running the business.

Mr KEOGH: What would you say the weighted average credit percentage interest rate is—

Mr Elliott: It is 11½.

Mr KEOGH: That is the weighted average?

Mr Elliott: Yes. That is my understanding—it is weighted average—yes. That is across all the various cards—low rate, high rate, reward—

Mr KEOGH: All the different variations of the cards that you offer. That is 11½, so that is a spread off the RBA rate of—

Mr Elliott: 10.

Mr KEOGH: And that is where you are fitting in all those other—

Mr Elliott: Yes.

Mr KEOGH: What is the profit on the credit card business?

Mr Hodges: We do not actually fund off the RBA—

Mr KEOGH: I understand—there is a whole heap of mix in there, but it is just interesting to get that spread, the 10 per cent spread off the RBA rate. And what is the profit of the credit card business?

Mr Elliott: In dollars?

Mr KEOGH: Yes.

Mr Elliott: I am not sure that we disclose that. No, I do not think we disclose that. But I will give you a rough idea. It would be, after-tax, a couple of hundred million dollars.

Mr KEOGH: What is that as a proportion of your overall—

Mr Elliott: Our overall profit is $7½ billion. So it is small.

Mr KEOGH: So this is pretty small fry for the bank?

Mr Elliott: It is a big business in anybody's estimation, and a couple of hundred million dollars is a lot of money—so I am not saying it is not. But, in the scheme of the bank, it is certainly not the driver of earnings, and in fact, if anything, the profits on that business have actually been going down. And the reason is that, as we mentioned, there is no real growth in the business, so people are not using cards more and more, and there is certainly that, and the cost of running it, particularly the rewards, and sometimes the credit costs are going up and so that is eating into the profit.

Mr Hodges: If I recall from last year, it is about five per cent of the group's asset base and it is about five per cent of our earnings. So it is broadly consistent with the size of the assets and the size of the earnings. It is about the same size.

Mr KEOGH: So movements in what is happening in that business, unless they are extreme, are not going to have a huge impact on your profit?

Mr Elliott: Yes, that is correct.

Mr KEOGH: Turning now to the national credit act, that requires responsible lending by your bank.

Mr Elliott: Yes.

Mr KEOGH: Including credit cards. You have an obligation to inquire to ensure that the products, including credit cards, are not unsuitable for your customers.

Mr Elliott: Yes.

Mr KEOGH: And ASIC has a regulatory guide in relation to this and it says, in particular:

… by paying only the minimum monthly repayments, the consumer is likely to take a long period of time to repay the maximum limit on the card, credit licencees—

that is, the bank—

should consider whether this meets the consumer's requirements and objectives.

There was evidence to the committee last year—I am not sure which bank this was with—that a Mr Les Banton had been knocked back on a personal loan at a 13 per cent rate but then had been given a credit card at an interest rate of 20 per cent. Further examples provided by the Consumer Action Law Centre to Treasury, in response to its consultation paper, talked about a painter earning less than $6,000 a month, who, in a six-month period at the end of last year, successfully applied online for six credit cards through his bank, with a collective credit limit of $79,000—substantially more than he had ever earned in a year. Do those examples strike you as the sort of thing that you would regard as being in compliance with that ASIC guideline and with the requirements of the national credit act?

Mr Elliott: No.

Mr KEOGH: Coming from that—and I am glad to hear that—the committee made some recommendations around changes to responsible lending practice, in particular looking at serviceability of these credit cards, and the government has supported that recommendation and suggested a similar approach to the UK Financial Conduct Authority. What is your view on those recommendations?

Mr Hodges: I think one of the things that were raised at that was that we should be looking at increasing the minimum monthly payment, and I think the conversation at that inquiry was that that would encourage people to pay back more quickly the debt that they have on the credit card, which is a good thing. The only risk factor around that was that, if people were asked to pay too much, it might force them into payday lending.

Mr KEOGH: The government recommendation is not to do that at this stage. They have noted that as an issue.

Mr Hodges: So I think voluntarily the banks have increased the minimum payments which they had to make.

Mr KEOGH: The question is about serviceability. It is about instead of looking at, 'Can someone make the minimum required payments'—

Mr Elliott: Agreed, yes.

Mr KEOGH: 'Will they be able to repay a credit card balance over a reasonable term, as opposed to it just extending out into the never-never?'

Mr Hodges: Absolutely. That should be the standard.

Mr KEOGH: So is that something that your bank is looking to do?

Mr Elliott: Yes, we will look to do that.

Mr KEOGH: Do you have a time frame from when those sorts of changes will be implemented?

Mr Elliott: I would have to come back to you. I know that they are business; I will have to come back to you on the specific time frame around that product.

Mr KEOGH: But is changing its parameters for assessing credit cards something that the business is currently engaged in?

Mr Elliott: I would have to check whether we are currently changing the parameters; it is something that we are looking at.

Mr KEOGH: So it is something you are currently looking at doing?

Mr Elliott: That is my understanding, yes. Again, I will go back and check the facts about how far progressed this discussion is. It is the right thing to do for us as well. Interests are actually aligned here. It is not in our interest to have customers in products that they cannot service. We know we have to do a better job on this—and so, absolutely.

Mr Hodges: I think in your earlier example it was entirely the wrong product. You should be in a personal loan rather than a credit card, because you then have a fixed payment to be paid down over a period.

Mr KEOGH: No, that is right, but I just wanted to see if, coming from this, you are looking at taking action. You are, and that is good to hear. You were mentioning hardship provisioning before. Do you have a proactive engagement with reviewing the activity on customers' cards into how they are repaying them or how much they are repaying, to identify where there seems to be financial hardship?

Mr Hodges: As I mentioned earlier, we do have a very strong hardship capability within the bank, and people get referred to that if there are any issues, but what we have undertaken to do—

Mr KEOGH: When you say 'if there are any issues', what do you mean?

Mr Hodges: If people ring in and declare that they have hardship then clearly we put them through our hardship teams, and I think it is a very effective way of managing that. But I think we want to go further—

Mr KEOGH: What I am asking is: do you have a proactive engagement where you are, if you like, continuously monitoring what is happening on your customer base's card repayment processes or in something else that triggers you to say, 'We should probably look deeper at that; maybe there's an issue'?

Mr Hodges: That is what I mentioned earlier. We have taken a number of steps over the last couple of years. It might sound like a small thing, but one is to put a hardship button on our website so people can find their way directly to the hardship teams and declare, 'We're having trouble here; how do I reschedule and get myself in better financial shape?'—and our hardship teams are well trained to deal with that. In this last 12 months we have been looking at that very issue, and, as I mentioned, we have done some pilots around that where we have proactively been looking to contact customers where we believe that they are exhibiting characteristics which are pre-hardship, if you like, but leading to hardship.

Mr KEOGH: What characteristics are you looking for?

Mr Hodges: There are a range of them. One is that they may continually pay the minimum payment every month, rather than more, and they leave debt on there. There will be a range of issues that you would find through the algorithm that you looked at there. The idea then is: how do we proactively approach them? Do we phone them? Do we write to them? We have done all of that in the last 12 months in these pilots. As I mentioned earlier some customers welcomed that approach from the bank; others actually were indignant that we approached them.

Mr KEOGH: No, I understood that.

Mr Hodges: We continue to do that and we will be following up that process and launching, hopefully, a sophisticated and effective way of identifying clients prior to them getting into trouble or hardship, so that we can guide them as to what might be a better way of managing credit cards. We think that is a good thing to do.

Mr KEOGH: During that committee hearing previously, the evidence from ANZ was that about 0.3 per cent of credit card customers have sought assistance through the hardship program. What proportion of those end up receiving assistance?

Mr Hodges: I do recall that 0.3 per cent number, and I cannot tell you the specific proportion on that. We can follow up with that.

Mr KEOGH: Is it a high proportion? Are we saying that nearly everyone who comes to you and says, 'Look, I've got hardship,' is assisted, or do you find that you get a lot more requests than are reasonable?

Mr Hodges: Yes. If people have declared themselves with hardship, we will always provide assistance. The question is: what is the right assistance? It is slightly more complicated than just, 'I've got a problem with my card,' because the reason they may have a problem with their card is that they may have utility bills that are pressing. Ultimately, the card is what they use to deal with all the other financial issues, until the card runs into its limit. That is when people can declare, or they could do that earlier and say, 'I'm running into pressure, because the card is now part of an everyday use.'

Shayne and I have spent time in our call centres and our collections areas to better understand the pressures that have been on, and we have seen that increase in recent years. Our view would be it is not just the card itself, it is the rest of the issues happening in people's lives.

Mr KEOGH: That is what financial hardship is. I was just asking you a question about, of the proportion of people that ask you for hardship assistance, whether it is a high proportion you end up helping or not.

Mr Hodges: Absolutely, yes.

Mr KEOGH: In your evidence you indicated that nine out of 10, in the hardship category, you are helping are there because of an unexpected event—primarily, loss of income, unemployment, divorce or illness, which are quite outside of the bank's control. If that is the case, does that not indicate that one in 10 of those people, 10 per cent, was someone suffering from financial hardship at the time the credit card was issued to them?

Mr Hodges: It may not. It may—

Mr KEOGH: That was the implication. If nine in 10 were not, one in 10 were.

Mr Hodges: It may be something else that they have, rather than just a credit card.

Mr KEOGH: But it would have been at the time the card was issued.

Mr Hodges: I am not sure about that. I would have to confirm what we wrote last year.

Mr KEOGH: Can you confirm that for us?

Mr Elliott: Yes.

Mr KEOGH: It is concerning. It would appear that of those people who are coming to you with hardship nine in 10 have something happen after they are issued with the card—that was outside of our control—and one in 10 of them seems to have had something that was already a problem at the time the card was issued, which would seem to be a bigger problem, in terms of—

Mr Elliott: I think the answer—and this is a more broad answer; it is not just about cards—is that customers do the right thing and customers, when they borrow money, will pay it back, and they have the right intentions. When they get into hardship it is, generally, because something happens in their family situation—they have a lower income, they have lost their job or there is a family breakdown.

Mr KEOGH: Yes. That is the nine out of 10; that is right.

Mr Elliott: Yes. But there are people who just manage their finances badly and things happen to them, but it is not caused by a family breakdown. It is just other things. They overextend themselves. They take on too much debt.

Mr KEOGH: I understand that. It is just that the way the evidence was given by yourselves—

Mr Elliott: That is what it is referring to, I am sure.

Mr KEOGH: was about things that happened post the card being issued and, therefore, the other things may have been around when the card was issued.

Mr Hodges: Yes. I explicitly said nine out of 10 of those customers in hardship because of unexpected events—primarily, loss of income from employment, divorce or illness—not because of financial overcommitment at the time the card was issued. I made that point because that is what our hardship people had told us. I cannot tell you, specifically, about the other 10 per cent that—

Mr KEOGH: If we could find that out, I think that would be very useful.

Mr Hodges: Sure.

Mr KEOGH: Data released from APRA shows that there has been a steady increase in the value of debt consolidation loans. I presume part of this would be from work undertaken by banks, across the board, in this hardship category. But it seems to be that more people are trying to consolidate their debts and, in particular, credit card debt. It also appears that credit cards are becoming one of the most common causes of personal bankruptcy. Is it your bank's practice to have customers cancel their credit cards if they take out debt consolidation loans to pay them out?

Mr Hodges: I am not sure of the policy there, but I know that we participated in that debt consolidation pilot, which was done through a number of the not-for-profits. We think that is a good thing. But I do not believe we cancel the cards—

Mr KEOGH: But you do not know if you have a policy where you make them cancel their cards.

Mr Hodges: I do not believe we cancel their card as part of that, because the card is part of the everyday financial—the way people survive. What we do is—

Mr KEOGH: Do you have a process where you assess and go, 'Okay, you're after debt consolidation because it may be the case that this credit card has got you into trouble. If we leave you with that credit card you may end up further in debt'? This is not all credit card users, and I take your point that credit cards, for many people, are an essential cashflow measure.

Mr Hodges: The financial counsellors we speak to, and we do that on a regular basis, would suggest it is not the right thing to cancel a card but to reduce the limit on the card. They have advised that somewhere between a $2,000 and $2½ thousand limit is what you should keep it at, because if you cancel it altogether, if these people have an immediate need, as they might do—taking their children to the doctor or whatever—they are forced to payday lenders. So what we are trying to do is make sure they are not—

Mr KEOGH: So you may bring the limit down?

Mr Hodges: Absolutely, you can reduce the limit.

Mr KEOGH: Mr Elliott, this was a bit hard to work out from annual reports—because obviously you have come into your role quite recently—but, as the CEO, what is the base salary that you are on?

Mr Elliott: $2.1 million.

Mr KEOGH: And what is the total annual variable remuneration that you have?

Mr Elliott: I am yet to find out. My target is 100 per cent of that. So my short-term variable is 100 per cent of that—$2.1 million—and my long-term variable is also 100 per cent. So it is a third, third, third. That is at the board's discretion and shareholder approval.

Mr KEOGH: So it is basically 100 per cent. How does that compare to the starting salary for a teller in one of your branches?

Mr Elliott: Obviously it is significantly higher. Tellers are in the range of $50,000 to $60,000.

Mr KEOGH: When you were in your CFO role, I presume financial performance was quite a big measure for you in terms of the AVR that would be allocated to you.

Mr Elliott: No. My measures as CFO were not vastly different from anybody else on the senior executive team. I cannot remember the exact weighting, but it would be a third or something like that. Again, it is risk, people, customer and financials—and the weightings are not quite equal but roughly equal.

Mr KEOGH: I notice that economic profit was down—that was one of the measures there. And customer satisfaction actually decreased for the bank last year, but I think it was still defined as being on target. What sort of decrease would you be looking for before things were described as below target?

Mr Elliott: Again, that is a fair question. I will make no excuses: one of the difficulties around a balanced scorecard is that it is balanced, and so there are a lot of metrics that go into it and there are always going to be trade-offs. So while some will be down others are up. On balance it was assessed by the board that the performance was broadly on target. There were pluses and minuses. There were things we did very well and there were things we did poorly. We will be looking at that at the moment in terms of the way that scorecard gets set, what the metrics are and what my metrics are—to try and simplify it and have fewer metrics so that there is less trade-off capability.

Mr KEOGH: So that whole remuneration structure is under review?

Mr Elliott: Absolutely. I think it is fair to say also that remuneration for senior leaders is coming down. My compensation is much lower than my predecessor's, as has been the case for some of the new people we have brought onto the team.

Mr KEOGH: I notice that, as well as customer satisfaction going down, you seem to have increased market share. Does that tell us something about the competition point that was being made earlier—that you can perform badly in your customers' eyes, or worse, and you still retain an increase in customer satisfaction?

Mr Elliott: We could debate this for a long time. Customer satisfaction is an interesting metric. There is no significant evidence that the way the industry measures customer satisfaction leads to customers actually choosing you as a bank. That is why people in our industry, ourselves included, are looking more towards something called 'net promoter score'. This is not perfect either, but it is a better indicator. Essentially it says: 'Based on your experience, would you tell your friends to come to ANZ?'

Mr KEOGH: Is that a bit of a black hole problem for banks and your shareholders that you are remunerated partly on the basis of customer satisfaction, and the measures used to measure that now, or possibly in the future, all seem to have some flaw or there is not a high degree of confidence in that concept?

Mr Elliott: There is a huge debate, and shareholders in particular, but also other stakeholders, sit on both sides of that. Some would prefer that it was very simple—around one or two metrics, with a high degree of focus on financial performance. But, as we know, when you become too narrowly focused on financials it can lead to the wrong behaviour. So there is value in having a balanced scorecard; you want to have it balanced but not have too many metrics that are, by nature, more difficult to measure.

Mr KEOGH: On the flipside of that, you have the financial incentive component and the drive towards having financial performance. For you, that is obviously across the group; for other people, it is directly linked to commissions or incentives on the sale of products. The glaring example at the moment is Wells Fargo in the United States. Is that cause for alarm? Do you have to draw back from that as well?

Mr Elliott: Yes, it is a cause for alarm. First of all, nobody in the organisation is solely remunerated on commissions and sales. Everybody has an element of balance in their remuneration—whether it is customer service—

Mr KEOGH: But it is a driver in their behaviour if it is part of their—

Mr Elliott: Yes, it is a driver and it is our responsibility to make sure that it is a healthy driver and it does not incent poor customer outcomes.

Mr KEOGH: So that means you have to really address the culture within the organisation.

Mr Elliott: Absolutely. Talking about remuneration, obviously for senior executives but anybody in reasonably senior roles, a lot of that compensation is deferred and we have the ability to claw that back. So if we find—

Mr KEOGH: So for people who are more customer-facing—financial planners, product sellers—their income, or at least part of it, is tied to that incentive and it is not long term. It may be a long-term financial benefit to them but it starts immediately; it is not just a deferred sort of 'I've got an investment in the bank' type of thing.

Mr Elliott: Correct and it depends on the amount, and it depends on the amount that they are receiving and some of it gets paid to them in equity, so that their interests are aligned.

Mr KEOGH: So you would agree that culture has to be a key part of how you do that?

Mr Elliott: Absolutely.

Mr KEOGH: The UK Financial Conduct Authority has brought in this strengthening accountability framework. I am sure as an international bank, as you are, you would be aware of this—their process of having rules on individual accountability, the senior managers' regime and the remuneration code. Do you see some merit in that approach?

Mr Elliott: Yes.

Mr KEOGH: Is that something you think should be considered here?

Mr Elliott: I think that that tightens accountability for senior executives and is something that should be looked at. That is only reasonable.

Mr KEOGH: I should say I have a few more questions on this.

CHAIR: We can put those in writing as well.

Mr HOGAN: Thank you, Mr Elliott and Mr Hodges, for appearing. My question is around competition within the banking sector. Obviously, there is always potential for misuse of market power when there are a few big players. I start by making an observation that the previous government around the global financial crisis, I believe, poorly designed the government guarantee on deposits and greatly advantaged, I would say, you and the other three majors. You were charged 70 basis points if you wanted to draw down the wholesale funding guarantee and smaller banks, if they were to use that, were going to be charged 150 basis points. I also make the point that other institutions such as mortgage trusts were excluded from this system. Indeed, there were two in my region—Mayne Investments and East Coast Mortgage Trust—that literally had to shut their doors, and the mum and dad investors there were under great stress because they were excluded from this scheme. I also make this point that in other countries it was not necessarily designed like this; their small banks and large banks were charged the same and all domestic deposits were guaranteed irrespective of the institution they were in.

If you look at the net interest margin—that is obviously where you loan money and where you borrow it—that has been coming down for decades. Then in the last few years, literally, since, I think, where there has been less competition in the market that has been edging back up. How would you explain the fact that the net interest margin is now increasing again?

Mr Elliott: All I can comment on is our bank. Net interest margin at the ANZ is not edging back up.

Mr HOGAN: Okay. The chair mentioned earlier the bank account switching service. Again, this was brought in to require banks to process requests in five business days. This request has been around for a long time. I understand that, typically, it is taking the major banks, including yourself, over 30 days to process this. Why is this taking so long?

Mr Elliott: My understanding is that when we receive a request, we process it within 24 hours. When a customer of ours asks us to provide information to another bank, we process that within 24 hours. When another bank comes to us, we respond to that within 48 hours. That is our position. We receive around two of those a day.

Mr HOGAN: Are you happy to give us that information? The information that I am getting is that all major banks are taking well over 30 days to do this, and some of the smaller banks are being quicker.

Mr Elliott: I am happy to give you that. That is the information I have. We asked that exact question. We are happy to give you our response but, of course, it takes both sides. It may well be that the customer experience, despite us doing this, is that the net result for them is around 30. But we can certainly give you our response times.

Mr HOGAN: That would be great, thank you. We have recently legislated that you can allow farm management bonds to offset against farm loans. I do not think you are allowing this.

Mr Elliott: I do not know anything about this, to be perfectly honest.

Mr Hodges: Neither do I.

Mr HOGAN: Can we put this in writing to you and you can respond to that at a later time?

Mr Elliott: Sure.

Mr HOGAN: Because I think some of the smaller banks are—

Mr Elliott: I do not know.

Mr HOGAN: But I do not think any of the major banks are as well. I have a generic question that has been raised before. If we were to look at the banking sector across the country, our major banks, in fact a lot of banks, are very good at giving money to buy houses, credit cards and personal loans. If we were to take a bigger picture, where do you see the role for modern banking in national development?

Mr Elliott: That is a big question. Our role and the way that we think about that is probably in two ways. One is collectively at the very big end of town in terms of supporting infrastructure. That is very clearly a need in the country and it requires lots of financing for long periods of time. As the largest institutional bank in Australia we have a really keen role to play in that and we are very keen to do so. That is complex but, absolutely, we have a role to do that and there is definitely capital available. That has become more expensive for banks to be involved in because of some of the capital changes that are happening as result of Basel changes and APRA et cetera. If we want to build a big piece of infrastructure and it is a 10-year project, the amount of capital we have to apply to that is much, much higher than almost anything else we do in the bank, and that depresses returns. But we have a role.

The second, I think, is less about the big end of town and is more about helping small business formation. The economy is going through quite a significant transformation. More and more people work for themselves or want to start and run a small business. That is great. It imposes some challenges on the banks because we are traditionally set up to help people with assets and things to finance, so smaller businesses have different needs. But it is an exciting area. We have made a $2 billion pledge to lend to small business. We are growing our small-business lending at about 15 per cent per annum, and we have been doing it for the last four years. A lot of that is in start-ups. It is interesting—it is a risky part of the business but it is exciting and it is part of really seeing a transformation of the economy.

Mr HOGAN: Why do you think you are here? There is obviously a perception in the public—we, as MPs, get constituents coming in who are unhappy with their experience with big banks. And I would even narrow it down to the big banks. I do not get near as many complaints about smaller players. But there are very few people who believe that what we are doing is not a good thing in having the four major CEOs before us and questioning you and grilling you over your practices and your culture and everything else. Why do you think that is so?

Mr Elliott: Because I think that as an industry we have lost touch with our customers and we have become too internally focused and have forgotten our role in society and in the community at large. When we have lost sight of that, that has taken us down a path that has created bad behaviours and poor culture—and really not treated customers with the respect they deserve. That is why we are here: it is to explain that, I believe, and to say what we are going to do about it.

Mr BANDT: Has the ANZ made donations to political parties?

Mr Elliott: Yes.

Mr BANDT: How much and to whom?

Mr Elliott: I can come back to you. I believe our policy on that is to donate to the major parties. My recollection is that it is the same amount to each major party. But we can come back to you with that.

Mr BANDT: If I suggested to you that between financial years 2004-05 and 2014-15 ANZ donated $1.65 million to the ALP and to the coalition but to no other political parties does that sound about right?

Mr Elliott: No. Say that again. Are you saying to the two majors?

Mr BANDT: Yes.

Mr Elliott: I would have to go and check. I was not in the bank. I would have to go and check.

Mr BANDT: How do you explain or justify that to shareholders?

Mr Elliott: That is a very good question. We justify it on the basis that we are supporting the democratic process in the country.

Mr BANDT: And over that period from 2004-05 to 2014-15 when the democratic processes delivered Labor and Liberal governments, given that there is no royal commission into the banks and you are still not subject to a tax on your extraordinary government subsidised profits, you must consider those donations to be a pretty good investment?

Mr Elliott: I do not believe we have government subsidised profits, and we do not see those donations as investments.

Mr BANDT: Do you have any plans to stop making donations?

Mr Elliott: We are having discussions at our board about the role of political donations and what our position is on that.

Mr BANDT: On another matter, earlier on—and I do not want to put words in your mouth, but I do not have the transcript in front of me—I think you broadly agreed that lenders, certainly in wholesale markets overseas, would factor in that there is some form of implicit guarantee of your operations—the government would step in and support you if you got into trouble—and that means they would lend to you perhaps at a cheaper rate than they might to others. Is that a fair characterisation?

Mr Elliott: No. When we issue debt, in whatever form, the ratings agencies place a rating on it. It has been the policy of the major rating agencies, whether it is Moody's, Standard & Poor's or Fitch, that they rate us on a standalone basis, and this is not unusual globally. Then they give us an upgrade—I think it is a one-notch upgrade—because of the strength of the Australian financial system, the regulatory framework and the fact that the government, they believe, would be in a position to support in the event of any problems. But that is a rating agency decision. It is not something we do or ask for. They are an independent body and they do that. The international investors take that into account when pricing for the risk they perceive on ANZ or any other company that issues.

Mr BANDT: That is a benefit they give you that they do not give your smaller competitors.

Mr Elliott: I do not know what the rating agencies' approach is with the smaller competitors.

Mr BANDT: Given that the RBA and the IMF have both estimated that across the big four banks it is somewhere in the order of about $4 billion a year benefit that is given to you, do you think it is fair that a proportion of that benefit, given that it is reliant effectively on government standing in for you should you ever get into trouble, should be paid back to the public purse?

Mr Elliott: As a large player in this market it also comes with obligations. We are defined as a domestically systemic and important financial institution, which the small banks are not. As a result of that, we are required to hold significant higher amounts of capital, and that comes at a cost. So there is a quid pro quo here. You could argue we are paying for that, or our shareholders are paying for that, by having to hold higher levels of capital to support our business, as opposed to others.

Mr BANDT: So you consider that that fully offsets it and that the RBA and IMF are not correct when they say that you have an advantage over your smaller competitors?

Mr Elliott: I am not suggesting that it fully offsets it. I would have to go and do the maths on it and there would be all sorts of conjecture about how you would value that. I am not suggesting they are wrong, but you are looking at a narrow one-part definition. I am saying that on the broader scheme there are a lot of plusses and minuses here.

Mr BANDT: Can I ask about Timbercorp. Isn't it the case that you loaned money to Timbercorp but part of that deal, a condition of that deal, was that Timbercorp would get its investors to put up their houses or other forms of security?

Mr Hodges: I do not believe that is accurate. As a corporate bank we lent to the Timbercorp entity—the corporate. Within that there were a number of entities and one of those entities clearly had more of the grower-investors in that. Those investors decided to invest in that. We did not have any relationship at all with those investors. We did not lend to them. We did not advise them and we do not know—

Mr BANDT: Did you impose any requirements in your dealings with the Timbercorp group about what it did with respect to its investors?

Mr Hodges: No, we did not, and in fact those investor loans were securitised and we did not impose any conditions on those other than some, as you would expect in a normal securitisation, around what were some of the credit criteria that were used to support a securitisation structure, which is a normal market practice there. So there were no conditions imposed by ANZ or the other lenders who were involved in the corporate end of that.

Mr BANDT: Where you advising your clients in wealth management division to invest in Timbercorp?

Mr Hodges: Our financial planners did not have Timbercorp on the approved product list but—

Mr BANDT: Yet at the same time you are saying that it is a satisfactory credit risk.

Mr Hodges: As a corporate entity it was a large listed ASX company and it had performed well over nearly a 20-year period—

Mr BANDT: But not well enough for you to recommend to your clients through your wealth management division that they invest in it?

Mr Hodges: I think why we did not do that is that we had quite a conservative financial planner network, if I recall, and we did not actually recommend managed investment schemes, which were generally based on the tax benefits so they were more heavily related to tax benefits that you would get as an investor on that. We had a fairly conservative financial planning profile, so those clients were not typically the clients that we had in our financial planning business.

Mr BANDT: Did any of the investors sign for recourse loans?

Mr Hodges: We do not know, because we did not actually have the relationship with the investors. It was Timbercorp Finance which did the loans if they were doing them through the investors. ANZ did not do that.

Mr BANDT: After the dissolution of Timbercorp, when it was placed in receivership or liquidation, did you issue instructions to KordaMentha about how you wanted them to recover money for ANZ?

Mr Hodges: You may be aware that a liquidator is actually appointed by the courts and is also, I think, accountable to the corporations law in terms of its—

Mr BANDT: Are you issuing a request to the liquidator?

Mr Hodges: responsibilities. It has specific legal responsibilities and it can take no instructions from any of the creditors that it is working on behalf of.

Mr BANDT: Are you making any requests of the liquidator?

Mr Hodges: We have worked with a number of members of parliament and others who have had requests from grower investors to help achieve what were fair and compassionate outcomes for people in hardship who were left holding Timbercorp investments, particularly where they borrowed to invest in those. We urged the liquidator to set up, which they did do, a special hardship program and we encouraged those investors who had experienced or were experiencing hardship to approach the liquidator and to approach the specific hardship advocate who was put in place. Many of those investors have approached that advocate, looked at their issues and had those resolved. There are still some who have not had them resolved.

Mr BANDT: Their assumption was still unsatisfied and, as you would know, this has been the subject of a Senate inquiry. During the course of the Senate inquiry, some of the senators expressed frustration about how ANZ was acting at the time—that the loans were written and properties were secured. Would you be prepared to provide all the documents in your possession or control relating to Timbercorp or KordaMentha to the committee?

Mr Hodges: As I mentioned at both the Senate hearings that I attended, ANZ had worked with parliamentarians and had also worked with KordaMentha to—

Mr BANDT: With respect to my question, is that a yes or no about the documents?

Mr Hodges: Which specific documents are you talking about?

Mr BANDT: Documents in your possession relating to Timbercorp over the period of Timbercorp's operation.

Mr Hodges: Over the period of Timbercorp's operation would include all of the legal cases et cetera, which would be a mountain of documents, so maybe we could take on notice what you are looking for more specifically, if that is okay.

Mr BANDT: Okay, we will provide you with a further written request. Can I just move to another matter. What is AmBank?

Mr Elliott: AmBank is a listed commercial bank in Malaysia that ANZ owns 23.8 per cent of.

Mr BANDT: As well as owning a share in it, do you get to appoint members to the board and appoint senior staff?

Mr Elliott: We have a partnership agreement with Amcorp, which is a shareholder in AmBank as part of that partnership agreement. With shareholder approval, we get to appoint three directors onto the main board and we can second employees into a couple of the senior executive roles, like the chief financial officer et cetera. But those are approved by Amcorp and then, once those employees are seconded there, they essentially sever their ties with ANZ almost 100 per cent. We had some responsibility—

Mr BANDT: Well, they still report to ANZ senior staff.

Mr Elliott: No, they do not.

Mr BANDT: Are you aware that there is currently an investigation at AmBank by the US Department of Justice—in fact, perhaps even a suit—related to an account for the Malaysian Prime Minister that has allegedly been used to funnel billions of dollars from the Malaysian sovereign wealth fund?

Mr Elliott: Yes.

Mr BANDT: Who was the deputy group managing director at the time that this is alleged to have occurred?

Mr Elliott: At AmBank?

Mr BANDT: Yes.

Mr Elliott: I cannot remember. He was certainly not—

Mr BANDT: Was it Ashok Ramamurthy?

Mr Elliott: No, he was the chief executive, not the deputy; he was the chief executive.

Mr BANDT: He was the chief executive, and he was an ANZ—

Mr Elliott: And Ashok Ramamurthy, at that point, had been seconded to AmBank to be the chief financial officer some time ago.

Mr BANDT: Yes.

Mr Elliott: When he became the chief executive, he severed his ties. He was full-time, 100 per cent dedicated to AmBank. He did not report to anybody. We have some obligations—

Mr BANDT: So he did not report to the CEO for South-East Asia, Joseph Abraham?

Mr Elliott: No. Ashok did not report to Joseph Abraham; no.

Mr BANDT: Is he still working for ANZ?

Mr Elliott: Who?

Mr BANDT: Ashok?

Mr Elliott: No.

Mr BANDT: Why not?

Mr Elliott: He left AmBank, probably 18 months ago. We had a short-term assignment for him to work on when he came back, to help him relocate back to Australia, and then we did not have a role for him and, on mutual agreement, he moved on.

Mr BANDT: With respect to the claims being investigated by the US justice department, are you satisfied that no-one employed by ANZ did anything wrong?

Mr Elliott: Yes.

Mr BANDT: And you are not being investigated in any way in respect to those allegations?

Mr Elliott: Me personally?

Mr BANDT: No, the bank or—

Mr Elliott: Certainly not to my knowledge, no.

Mr BANDT: You have conducted internal investigations which led you to be satisfied that no-one, either on secondment or a permanent employee with ANZ, has done anything wrong?

Mr Elliott: We do not run AmBank. I cannot go in and audit AmBank. We are a shareholder. We do not have that ability. The allegations that AmBank—

Mr Bandt interjecting—

Mr Elliott: revolve around the company—

Mr BANDT: What about ANZ employees on secondment? Have you conducted investigations—

Mr Elliott: Well, they are on secondment. They are no longer employees. They are responsible to the board of AmBank. AmBank has conducted those investigations. The allegations around AmBank revolve around a company called 1MDB. ANZ has had no relationship with that company. No employees of ANZ have had any involvement in that company or what has alleged to have happened at AmBank.

Mr BANDT: Let us move on to one other matter. In 2013, a PNG government commission of inquiry viewed evidence that hundreds of thousands of dollars of payments linked to two fraudulent agricultural land leases were paid into ANZ PNG bank accounts. Are you aware of that and have you ever reported it to shareholders?

Mr Elliott: I am not aware of that allegation, no.

Mr BANDT: You have not reported it to shareholders?

Mr Elliott: I am not aware of it, so I do not know. I would have to go and check whether the organisation was aware of it. I am personally not. Graham?

Mr Hodges: I am not aware of it.

Mr Elliott: We can go back and look.

Mr BANDT: That has been something that the PNG commission of inquiry looked into several years ago and it has been the subject of reports by groups including Oxfam, including in February this year. Are you saying that, even when it has been put out into the public domain that money has allegedly been paid into ANZ accounts, you have been unaware of it and/or did not take any steps to find out more about it or to report it to shareholders?

Mr Elliott: I am saying that I am personally not aware of it. If ANZ was involved in any of those allegations, I am sure our organisation investigated those things. We have a very good relationship with AUSTRAC and with other regulatory bodies both here in Australia and in Papua New Guinea. But I am just saying: I am not personally aware of the details. I am happy to come back to you on that.

Mr BANDT: So if that in fact did occur back in 2013—and Oxfam has been reporting on it as recently as February 2016—but that has not been disclosed to shareholders, would that concern you?

Mr Elliott: I do not know the details, so I do not know what I would be obliged to disclose to shareholders. I am not sure if there is any basis for the allegations. So I would have to go and look.

CHAIR: Mr Bandt, could you just come to your final question, please.

Mr BANDT: Are you of the view that housing is too expensive in Australia?

Mr Elliott: That is not really for me to say. We have a view that the market is well managed and regulated. I am sure our economists have a view et cetera. It is not really for me to say whether the prices are high or low.

Mr BANDT: Do you personally financially benefit, in terms of how your remuneration is structured, if the amount of mortgages that are written continues to grow as a proportion of your loan book?

Mr Elliott: If we grew our market share and were able to make profitable customer relationships in that area, that would certainly factor into it. But let's put it into perspective. As I said, my personal compensation and that of my team is on a balanced scorecard. The financial piece, which would include that, is, from memory, about a third of the measures. Then there are all sorts of things. In my scorecard, there is no specific reference to home loans, the size of the business or the profitability of it. There is nothing in my scorecard that refers to that specifically. Of course, some of it refers to the overall profitability of our business, but there is nothing in there that says, 'If you grow your home loan book, you get paid more,' or anything even remotely like that.

Mr BANDT: But if it leads to an increased return on equity then presumably it would.

Mr Elliott: Well, yes, but in a very diluted way.

Mr Hodges: I appeared at the parliamentary inquiry into housing—I guess it was two years ago, approximately—and I think what we said at that stage was that we felt there clearly is not one housing market in Australia but, in certain patches of that market, the affordability of housing has become very difficult for people breaking into that market. I think what was clear to us, and certainly to our clients who operate in that as commercial property developers and builders, is that the supply issue is one of the major factors which have led to higher housing prices in some markets. There is a lack of supply of new housing and, in part behind that, a lack of supply of developable land which the builders are able to get hold of. So I think it is probably fair, in the academic and also economics circles, to say that there is a supply issue in Australia because of the growth of the population and migration, in some markets.

Mr BANDT: Thanks. I have more questions, but I think my time has run out.

Mr CRAIG KELLY: Mr Elliott, in your opening statement you said that margins had halved in the last 20 years. When you refer to margins, I take it you refer to the difference between the RBA official rate and your lending rate.

Mr Elliott: No, I refer to the average price we pay for our deposits versus the average price we charge for our loans.

Mr CRAIG KELLY: Which is similar—close to the RBA rate. You put a graph in there.

Mr Elliott: Not really. Actually, it is—

Mr CRAIG KELLY: There is a slight difference.

Mr Elliott: I take your point.

Mr CRAIG KELLY: Okay. You also said—I think in your slides that you provided us with here—that that decline in margin was a result of competition intensifying.

Mr Elliott: Yes.

Mr CRAIG KELLY: Isn't the opposite end of the stick, if there has been a significant increase in margins, that that would show a lessening of competition?

Mr Elliott: Not necessarily. It could show that there is an increase in risk.

Mr CRAIG KELLY: Okay. I take you to the RBA indicator lending rates. If I look at the information provided by the RBA for lending rates for small business variable residentially secured rates, I see that, from the late 1990s up to about 2007, they were within a small band of difference between the RBA rate and the indicator rate.

Mr Elliott: Yes.

Mr CRAIG KELLY: Around 2½ per cent. But then, after that, they have jumped significantly, and they have continued to go up and up and up.

Mr Elliott: Yes.

Mr CRAIG KELLY: The current number that I see is that the spread between the RBA rate and the indicator lending rate for small business, residentially secured, is higher than it has ever been at any other time in the history of the RBA's recording these figures.

Mr Elliott: Yes.

Mr CRAIG KELLY: Isn't that a clear indication that there has been a lack of competition in the market?

Mr Elliott: No, it is an indication of two things: (1) the risk has changed. The losses on a small business portfolio secured on home lending are 10 times higher than just traditional owner-occupied lending, so there is 10 times the risk. If it is unsecured lending to small business, it is 136 times higher. So the risk is higher.

Mr CRAIG KELLY: So when—

Mr Elliott: Can I finish? So that is (1); (2) there has also been a regulatory change, which suggests that the amount of capital that we need to hold against a small business loan secured on a mortgage is 60 per cent higher than just on an owner-occupied house. So the cost of risk and the cost of capital are higher. That gets reflected in price.

Mr CRAIG KELLY: So you are saying that since the late 1990s and the early 2000s there has been a substantial increase in risk to lending to small business?

Mr Elliott: No, I am not saying that. I think—and it was covered well yesterday, and I think the governor alluded to this—that it is probably more likely that the risk was incorrectly priced in the past. If I just look more at the short term, not in the time frames you are talking about, the reality in Australia today is that the risk in small business is increasing, and part of that is to do with the downturn in mining in certain parts of the country, but, as a more broad based comment, there is stress being felt in small business and loss rates, if you will, are increasing.

Mr CRAIG KELLY: The other figure that I think is interesting is, if I compare the indicator lending rates to large business versus small business, there does not seem to have been the increase in risk or increase in that margin to large business.

Mr Elliott: Correct.

Mr CRAIG KELLY: So are you saying that, over the last 15 or 20 years, there has been an imbalance or a greater risk being borne by small businesses as compared to larger businesses in the economy?

Mr Elliott: Yes. I mean, today, the reality is that small businesses are significantly riskier. The losses we incur in lending to small businesses are much higher than to large businesses. Large businesses have more diversified revenues, they have more sources of capital et cetera.

Mr CRAIG KELLY: When you say they are a greater risk, these are residentially secured small-business loans. I am struggling to see the risk when we have a market of rising property prices, where you are not lending 100 per cent of the residential property value; it might be 80 per cent, 70 per cent or less. I am struggling to see from the banks' perspective where there is a greater risk if those loans are residentially secured.

Mr Elliott: The fact is that our losses—bad debts on small business—are 10 times higher for secured lending against small business than they are for household.

Mr Hodges: And that is secured, not necessarily always residentially secured.

Mr Elliott: On a house, yes.

Mr Hodges: I think the issue there goes back to the source of the income, and the likely volatility in that income in a small business is greater than it is in, say, a wage and salary earner, who would typically be your homeowner. So it sort of works on both sides, if you like. It is a higher cost, but there is also more variability in income.

The other thing which I think is a good trend, frankly, is that the banks are being more prepared to lend unsecured into the small-business sector, and that is particularly important, because what we have seen is the growth of what we would call the small-business service sector, which typically do not have the security that you are looking at. If you put that as part of the portfolio, you could see the risk of small business, given what we are doing and the fact that we are lending into that sector, has actually grown over this period.

Mr CRAIG KELLY: I appreciate that, but the numbers that I am referring to from the RBA data relate to residentially secured small-business overdrafts. Yesterday, Mr Narev from the CBA said that there is a very low level of loan impairment currently. I am struggling to see how that gap between the RBA cash rate and the loan rate to small business residentially secured should be higher now than at any time since the RBA have been keeping these figures.

Mr Elliott: Again, as I said, from our perspective—

Mr CRAIG KELLY: So you are saying the risk now to small business is greater than at any other time through the last period?

Mr Elliott: No, what we are saying is that we are recognising that the risk is higher today and that we were mispricing risk in the past.

Mr CRAIG KELLY: So you are saying you were losing money previously on loans to small business?

Mr Elliott: Not necessarily losing money, but we were not being compensated for the risk differential in the past, and the reality is that today there is much more sophisticated risk modelling. The numbers I am giving you are not hypothetical; they are factual. I can only talk about our portfolio; I cannot talk about CBA's or others'. I am talking about our losses in that sector—and you can look at our disclosed results. Losses in small business have been increasing, and they are much higher than in—

Mr CRAIG KELLY: As a percentage of the total portfolio of loans to residentially secured.

Mr Elliott: Yes.

Mr CRAIG KELLY: What is the percentage?

Mr Elliott: I said secured loans to small business are 10 times higher than in mortgages. Unsecured to small business are 136 time higher.

Mr CRAIG KELLY: For every $1 million that you loan to small business residentially secured, what are the actual losses?

Mr Elliott: I do not know. I would have to come back to you with that.

Mr CRAIG KELLY: Is that something you could provide the committee with?

Mr Elliott: Sure.

Mr CRAIG KELLY: In one of your other statements you said that the banks have lost touch with customers.

Mr Elliott: Yes.

Mr CRAIG KELLY: Isn't that a sign of a decline in competition in the market? In a normal competitive market, how can the major players say they have lost touch with their customers? To me that seems to be a clear sign that there has been a decline in competition since we have seen St George taken over, since we have seen Bankwest taken over, since we have seen Aussie home loans taken over, since we have seen RAMS taken over—since we have seen the consolidation of the market. Isn't losing touch with customers a sign of what is happening?

Mr Elliott: No. That is your perspective and you are entitled to it, obviously. All I can say is about our bank. We have 16 per cent market share. We work hard every day to try to win some of the 85 per cent of business that is not with the ANZ. We compete really hard with very professional, well-run banks, big and small.

Mr CRAIG KELLY: I have some other questions regarding the recent High Court case, which I will put on notice to you.

Mr Elliott: Okay. Sure.

Mr EVANS: I might just ask a couple of quick questions following up on what Mr Kelly was just asking. When you say that risk in the small business lending space was incorrectly priced in the past, are you saying that this new approach to pricing is going to continue for the foreseeable future?

Mr Elliott: Yes. We use more sophisticated models today than we have in the past.

Mr EVANS: How do you think this general approach to higher lending rates for small business sits with your opening comments about wanting to keep your rates and your offerings as low and competitive as possible?

Mr Elliott: What I said was that we need to keep them as low as possible but keeping in mind we have to provide a decent return to shareholders who are taking the risk. Also, I can only lend money that we have on deposit, so I need to be able to pay an attractive rate to keep deposits. If you look at competition, one of the most fiercely competitive parts of the market today is for deposits, and the smaller banks are actually the leading force in that competition.

Mr EVANS: In terms of you managing your risk in those contracts and loans—that portfolio of contracts—do your contracts include an ability for you to reset valuations and LVRs within the terms of those loans?

Mr Elliott: For small business?

Mr EVANS: Yes.

Mr Elliott: I do not think so. I would be surprised.

Mr Hodges: I suspect not.

Mr EVANS: Is the proportion of your overall business that is comprised of small business customers trending up or down, or is it about stable?

Mr Elliott: Lending to small business, as I said, is growing at about 13 to 15 per cent per annum. From memory, we have slightly under half a million customers and we are winning more and more customers every year. The proposition, again, for small businesses is not necessarily borrowing money. Small businesses have a lot of needs. We want to be able to set them up, receive payments, pay their bills, do their taxes, do their accounts efficiently and easily, and new technology is allowing a lot of that to happen really quickly. We have just partnered with a FinTec based in Sydney called Honcho. If you want to set up a business tomorrow, with Honcho we can have you up and running—with an ABN number ready to take payments, a website, all of that—in one day. Those are the sorts of services that people are responding to, and a lot of small businesses actually do not need debt.

Mr EVANS: What is small business as a rough proportion of your total business?

Mr Elliott: I would have to come back to you. It is not huge—

Mr EVANS: Do you have a sense of whether that is—

Mr Elliott: but I want it to be bigger. As I said, there is a transition happening in the economy. Small business in its broadest sense is a growing part of the economy, and that is a good thing. There is a lot of diversity there, lots of great entrepreneurial spirit, and we want to be part of that and help those businesses set up. So we want it to be a bigger part of the company. Today it is going to be small. As a rough estimate, it is in the order of 10 per cent, if not less.

Mr EVANS: Is that significantly different to, say, 10 or 20 years ago?

Mr Elliott: Yes. Absolutely it has grown.

Mr Hodges: Yes. It has grown.

Mr EVANS: You said earlier, I think in response to Mr Conroy, that you consider your market share to be about 16 per cent and that you fight a little bit every day to take business off your competitors. What are the biggest barriers stopping you from taking business off your competitors today?

Mr Elliott: That is a really good question. Our market share has grown a little bit. Again, with market share we are talking about what people term 'traditional banking'—where they have their operating account and those kinds of things—as opposed to just home loans or credit cards or something.

What people want is a really competitive rate. People are quite rightly really sensitive about that, and they are right to be. Then they want the right service proposition, which is around the tools. Can they see their money? Can they make the payments? Can they do it on their telephone? Is there a good, decent call centre service behind it? Can I get access to the right specialists, if and when I need them? Those are the propositions that we do. We compete by putting more specialists into our branch network. So, increasingly, when you walk into an ANZ branch, there is going to be a small business specialist there who can talk about those things. That is the service proposition that we are putting down, but, obviously, it is always underwritten by a really competitive price.

Mr EVANS: I have two more questions, if I may, Chair, on behalf of some of my constituents. Do you agree with community views that it takes longer for your bank to pass on a rate cut compared to passing on a rate rise?

Mr Elliott: We have not had a rate rise in a long time! It is certainly not our intention, and I can understand that there will be people who are cynical about that. ANZ took a view recently—a few years ago—to try and move away and have rate discussions with our customers on a more regular basis. But the reality is that people expect those decisions to be made pretty close to the time that the RBA makes those announcements, and that is what we will do, whether it is up or down.

Mr EVANS: Just lastly, you talked a little bit earlier about your financial hardship arrangements. The feedback I get from my constituents is that those arrangements often work quite well for those who foresee financial hardship but are not yet in it but do not work well for those who suddenly get into it through illness or unemployment or so on. The allegation is that options like interest-only periods are only available, because of bank policy, once you have got on top of any arrears that have accumulated, which is obviously the hardest time to get on top of any arrears. Is that how it works in ANZ?

Mr Hodges: I could not be sure about the policy—we can obviously come back on that—but my judgement in terms of working around that would be that, if people were already in arrears, that would be taken into account in terms of working out what the customer could do and how we would best reset that. So, often that might mean you have a period where you give people no payments for a period to try to help them through a period of immediate stress and then work out how they reset their family expenses, essentially, around what is occurring in their lives to make sure that they can meet the normal needs of servicing the debt that they do have and meet their other bills. That becomes a process of working that through and then trying to set up a plan for getting people back into the normal part of the bank where they are not in hardship.

Mr Elliott: I think it is fair to say that our experience is that, unfortunately, more Australians are experiencing some level of financial stress. As I said, some of that is to do with the downturn in certain industries et cetera, but it is a fact. It is in our interest to deal with those people professionally and as quickly as we can to avoid them getting into a position of real stress. We have got to do a better job of making those options known to people. As Graham said, we are trying to do that through technology and other things, but we have got to do a better job making sure people know that they have that option.

Mr EVANS: I would like to know a little bit more about that, so we might chase that up—

Mr Elliott: Sure.

Mr EVANS: but thank you, Mr Hodges and Mr Elliott. Thanks, Chairman.

CHAIR: Okay. Thank you, Mr Evans. We will now move to some concluding questions from the deputy chair and then myself. We will probably run about five or 10 minutes over. We will do about five minutes from Mr Thistlethwaite and five minutes from myself. I now pass to Mr Thistlethwaite.

Mr THISTLETHWAITE: Thanks, Chair. I just want to go back to Timbercorp for a second, Mr Elliott. You mentioned in your opening statement, and Mr Hodges mentioned in response to questions, the Timbercorp hardship program. Can you explain what that program is and the bank's involvement in it.

Mr Elliott: Sure. I will ask Graham to answer that.

Mr Hodges: When Timbercorp went into liquidation and a receiver was appointed clearly there were both equity holders, suppliers to the business, investor growers and the lenders to them that were all impacted by that. What happened then was a class action on behalf of investor growers. One of the legal firms got that underway. That took about three years to go through the Supreme Court, the appeal to the Supreme Court and then a possible appeal to the High Court—all of them overruled. The legal advisers had said, 'Do not pay off your loans', so, as a result of that, people were left with higher debt at the end of that process than what they went into it with obviously because they had not paid anything off on their loans.

What was found there was that, after those court cases, the liquidator was able to follow up and look for the repayment of the loans that they had, which they did proceed with. Through that process it became quite clear that some people who were unable to make those repayments should not have been in that product. Some of those were concentrated in particular financial planning firms. There was the well-known Holt-Norman group in Melbourne. As a result of understanding that, the liquidator, with some urging from parliamentarians and also from ANZ, put in place a hardship program. Then they asked any of those investor growers from around the country who were in hardship to come in and talk to the hardship advocate and declare their financial position and then work out an arrangement for how they might deal with that. Some were dealt with incredibly compassionately—effectively, the debt was forgone; others were asked to pay some, depending on their financial circumstances. That process has been underway for quite some time. The liquidator has also been collecting off other people who were investors, who had actually held back making any payments, waiting until the end of the court process, and that process has been underway for this time.

Our role in that has only been at the very edges to encourage the liquidator to be compassionate in dealing with people in hardship but also to look at the broader policy issues that were raised in those Senate inquiries. One of the key things that came out of it was that where you have small financial planning firms that have had a lot of investors in a particular product like this, where they have effectively declared themselves bankrupt and have had a couple of million dollars of PI insurance—which was way insufficient to deal with the consequences of what had happened there—there is a gap in the market, because these individuals have nowhere to turn to get recompense. That is why we have come to the last resort compensation scheme, which we think as a policy option is a really good one to deal with situations where those actions happen—

Mr THISTLETHWAITE: Sorry to cut you off. We have got limited time. Does that compassionate approach extend to advising the liquidators not to pursue and foreclose on loans for people who may have been the subject of the dodgy advice—the firm that you mentioned earlier?

Mr Hodges: Absolutely. I think you would need to hear from the liquidators themselves or the hardship advocate, because they managed that process. That is exactly what has happened.

Mr THISTLETHWAITE: Mr Elliott, have you heard of the rockets and feathers hypothesis?

Mr Elliott: No.

Mr THISTLETHWAITE: This is a hypothesis by economists which states that when central banks lift interest rates then big banks generally pass them on like rockets, straightaway; but when central banks reduce interest rates, they drop like a feather—in other words, it takes a lot of time.

Mr Elliott: Okay.

Mr THISTLETHWAITE: Mr Evans referred to this earlier. There is an economist, Professor Abbas Valadkhaniis, who has done an analysis about the latest rate cuts. It is true that, by delaying passing on the rate cuts to your customers, the bank makes a profit out of that, doesn't it?

Mr Elliott: When you say 'delaying', as I said, there is no direct link between the RBA cash rate and what we charge customers. It influences some but not all of our cost of funds. As a broad question: if some of our cost of funds goes down, the longer we delay, clearly, that is to the advantage of the bank. That goes without saying; you are correct. It is our responsibility to pass those on as quickly as we can—yes. And we need to take into account the change in cost and what our competitive position is going to be. Remember, we are not just talking about passing on rate cuts to people who are already sitting with us; we are talking about our competitive position: what is the rate we are going to be competing with tomorrow morning at nine o'clock in our branch network? That is a really important consideration.

Mr THISTLETHWAITE: Mr Valadkhaniis's analysis of the latest rate cut in August 2016 by the RBA says that your bank took nine days to pass on the actual cut from the date that it was announced by the RBA until it became effective with your mortgage holders and account holders. I will give you this: you are the best out of the big four. You took nine days; CBA,16 days; NAB, 16 days; and Westpac, 20 days. We will question them about this as well. His analysis is that, in doing so, you make $7 million. That is a profit for the bank of $7 million. That is true, isn't it?

Mr Elliott: I do not know; I would have to look at the maths.

Mr THISTLETHWAITE: You do make money out of it, don't you?

Mr Hodges: A point here which is probably not understood is that as we are looking at what we are going to do around these, it is really a competitive position, as Shayne said. We look to position ourselves in a favourable way with our customers. We do not want to make multiple changes, and we are trying to assess, 'Where would we position ourselves, and where will the others position themselves, so that we can actually compete effectively in the market?' So sometimes the delay is more around trying to work out what our best strategy is around being competitive and winning new customers in the marketplace, not because we are thinking we are going to profit by every day that goes by. That is a strategic competitive decision that we would make: do we want to be at the lowest rate? Do we want to be just one above the lowest rate, or do we want to be five basis points above? Everyone is trying to work out where their position is in the market. So I think there are some genuine competitive reasons why people might delay a little, to find out where we put our rate out there.

Mr THISTLETHWAITE: Mr Elliott, you said earlier that a bank teller's base rate was $50,000 to $60,000. I am advised that it is actually $45,491. There is a bit of a difference there, if you are one of those bank tellers.

Mr Elliott: It is 50 to 60; it depends. Obviously, there is no such thing as 'a bank teller'—they all have different grading levels, experience levels et cetera. We can come back to you on the confirmed numbers, but my understanding is that the average is $50,000 to $60,000.

Mr THISTLETHWAITE: I guess there are some bank tellers who want to talk to you about a starting base salary of between $50,000 and $60,000.

Mr Elliott: I did not say it is a starting base salary. Some of them have been doing it for 30 years.

Mr CONROY: That was the question, though.

Mr Elliott: Pardon?

Mr CONROY: The question was, 'What was the starting salary?'

Mr Elliott: Sorry, I misunderstood the question. My apologies; I thought it was the average.

CHAIR: Mr Elliott, I want to come back to the issues regarding OnePath and the incorrect fee charges on accounts and so on. We will write to you requesting a detailed description of the consequences. I just want to clarify: are you aware of anyone with regard to the OnePath matter being terminated by the bank as a result of that occurring?

Mr Elliott: Again, to which OnePath matter are we referring?

CHAIR: The broad 1.3 million, of which 1,400 was the superannuation allocated from it.

Mr Elliott: I am not, but that does not mean it has not happened; I would have to go and check. On that, I think we take a pretty firm view on these things. The reality is that we will not be perfect, but we do terminate people for poor behaviour. We have done that in markets, as we have talked about; we have done that with financial planners; we have done that in the branch networks; we have done that across the board. When we see code of conduct violations and people acting in an egregiously bad way or making negligent mistakes, there are consequences. Sometimes that consequence is a reduction in their bonus or cancelling it, and sometimes, if it is really serious, it may result in them losing their job.

CHAIR: Okay, we will write to you about that. I also want to pick up on Ms Banks' line of questioning in relation to your internal culture and whistleblower complaints and so on. I think it is fair to say that Ms Banks highlighted what would appear to be some gaps in your processes. Would you agree with that?

Mr Elliott: I am not sure that there were gaps in the processes. I think the question whether we had received any whistleblowing complaints about poor behaviour in markets, and we had not. Whistleblowers had not reported. When a whistleblower reports, either directly or indirectly through our third-party channels, we act on those things. We receive slightly fewer than a hundred whistleblowings of any serious consequence in a year. Most of those are to do with employer relation matters, as opposed to customer issues, but we act on those things, so we have a pretty robust process around whistleblowing.

CHAIR: But if you did have a robust process, you would have fewer issues arising, wouldn't you? You have a hundred issues arising; that is a significant number.

Mr Hodges: Essentially, it is the opposite.

Mr Elliott: Whistleblowing is a really important part of the framework—there is no doubt about that—but there are other parts of it as well. Hopefully in a culture that we are building at the bank now more and more people will just come and tell me, or tell senior managers, without going through a formal process. That is even more transparent, and people do come to me with issues that they want resolved. So it is an important part, but it is not the only part. It is not that we only rely on whistleblowing—we do audits, we have peer reviews, we have external experts come in and look at those things. It is an important part, but not the only one.

CHAIR: We will be writing to you and seeking all of those documents related to your procedures around internal management and whistleblowers and so on. Finally, on an issue I raised with Mr Narev yesterday regarding competition in the sector and the capacity for new entrants to come into the market, APRA obviously with its prudential regulation looks at capital requirements and so on, and I think it is fair to say that those have served Australia well, but there is an equally important issue around competition and people being able to access the market. If the committee was of a view to look at issues such as the initial capital requirements during the application process for setting up as a bank and the issue around shareholding, but no entity can own more than 15 per cent, do you think that would be in the interests of competition?

Mr Elliott: Yes.

CHAIR: So you would not have any objection?

Mr Elliott: No, none whatsoever.

CHAIR: That concludes the hearing for today. If you were asked to provide further documents, the secretariat will be in touch with you. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. As Hansard may wish to check some details concerning your evidence, would you please check if the Hansard reporters have any questions before you leave.

Resolved that these proceedings be published.

Committee adjourned at 12:26