

CBA action on Royal Commission recommendations

March 2019

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Supporting our customers

For consumer lending customers

Mortgage broker duties - best interests duty; and transition to the same regulation as financial advisers.

[Recommendation 1.2, 1.5](#)

CBA supports the Commissioner's recommendation to amend the law to introduce an obligation on mortgage brokers to act in the best interests of a potential borrower.

As a result of Round 1 of the Royal Commission hearings, and consistent with this recommendation, in April 2018, we amended our broker conduct requirements to increase transparency around broker-originated loans, for example by providing greater disclosure of the commissions paid to brokers.

We are also supportive of the Commissioner's recommendation that, after a sufficient time, mortgage brokers should be subject to similar regulation to that which applies to financial advisers.

The borrower should pay the fee associated with broking services. The transition should commence with the banning of trail commissions on new loans.

Treasury working group to review broker remuneration.

[Recommendation 1.3, 1.4](#)

CBA supports reforms to ensure good customer outcomes for customers of mortgage brokers. We have already taken steps over the last year to increase accreditation standards, training requirements and reporting on customer outcomes to ensure our brokers' metrics are customer focussed. We will work constructively with the broking industry as changes to remuneration are designed and implemented.

Misconduct by mortgage brokers

[Recommendation 1.6](#)

CBA supports the Commissioner's recommendation that ACL holders be bound by information-sharing and reporting obligations in respect of mortgage brokers. We are well-progressed in developing processes for reporting and information sharing in this area, for example by broadening the measures that we use to ensure brokers focus on quality and customer experience.

We are working with industry to establish how this information can be shared sector-wide and we are well positioned to meet the December 2020 delivery timeframe set by the Combined Industry Forum.

Consistent with the Commissioner's recommendation that upon detecting broker misconduct, ACL holders should make whatever inquiries are reasonably necessary to determine the nature and full extent of the broker's misconduct and where there is sufficient information to suggest that a broker has engaged in misconduct, tell affected clients and remediate those clients promptly, we are currently investigating broker misconduct, including communicating with and remediating customers affected by mortgage broker misconduct on a case by case basis. We are establishing a more standardised approach across our broker and adviser networks.

For vulnerable customers facing accessibility challenges

Improving access for culturally and linguistically diverse (CALD) customers and customers in remote communities

Recommendation 1.8

We support the Commissioner's recommendation, which reflects existing practice within CBA, as identified by the Commissioner in the Final Report.

CBA's Indigenous Customer Assistance Line (ICAL) provides assistance to Indigenous customers in remote and very remote communities, an approach consistent with the Commissioner's comments on good practice to address financial services access issues for Aboriginal and Torres Strait Islander customers.

CBA also provides a low fee everyday basic bank account which we offer to customers who hold an eligible Commonwealth Government concession card. We do not charge dishonour fees on these accounts. CBA does not offer informal overdrafts on these accounts and Bankwest is in the process of removing informal overdrafts on the accounts.

We recognise the necessity of supporting customers with low levels of English language and/or financial literacy. We have programs underway to translate a number of banking resources into multiple languages and we work with community organisations to provide financial literacy support.

For small and medium business customers

Small business definition

Recommendation 1.10

CBA is committed to supporting businesses across Australia. Last year we lent more than \$580m every week to businesses, and this year we are committed to supporting them even more. We will work with the Australian Banking Association (ABA), regulators and other industry participants to implement the change once finalised.

For our farmers

Farm debt mediation

[Recommendation 1.11](#)

CBA supports the establishment of a national farm debt mediation scheme and we will continue to offer farm debt mediation in line with state schemes in advance of the establishment of a national scheme.

Land appraisal rules

[Recommendation 1.12](#)

CBA supports the Commissioner's recommendation to APRA in relation to the amendments to Prudential Standard APS 220 and will work to implement APRA's framework as soon as it is released.

We are implementing the Commissioner's recommendations by establishing an external panel of valuation firms to undertake valuations on rural properties or using independent external valuation data in all cases. We anticipate this will be in place by the end of 2019.

No default interest during drought/natural disaster

[Recommendation 1.13](#)

CBA supports the Commissioner's recommendation that pricing should not be increased when a customer's financial difficulty is caused by a natural disaster or as a result of natural events outside their control.

Consistent with this recommendation, in February, we announced that we would no longer charge default interest on agricultural business term loans in the event of a drought or other natural disaster.

To further advance this recommendation, we will work with the ABA as they develop an industry-wide standard.

Management of distressed agricultural loans

[Recommendation 1.14](#)

Many of the recommendations made by the Commissioner in respect of the management of distressed agricultural loans are current business practice for CBA. Consistent with this recommendation, CBA already provides support for farmers in financial difficulty by bringing RAB agribusiness relationship staff with local regional knowledge together with specialised restructuring teams to manage farmers in distress (GCS). The specialised restructuring team is experienced in mediation and helping customers in financial difficulty.

Where there is a dispute between lender and farmer on how to resolve that distress, we consider that farm debt mediation is appropriate. We will continue to offer farm debt mediation where possible, and we look forward to the Government establishing a new national farm debt mediation scheme.

Finally, we recognise that the appointment of receivers or other forms of external administration are remedies of last resort.

As mentioned above, CBA is supportive of the Commissioner's recommendation that default interest should not be charged where there is no realistic prospect of recovering the amount charged.

For financial advice customers

Annual renewal of ongoing advice

[Recommendation 2.1](#)

CBA supports the Commissioner's recommendation and consistent with this recommendation, we will be moving to a new model in our salaried advice channel, Commonwealth Financial Planning (CFPL), where customers pay only after the service is delivered.

We will develop a new model in our other advice businesses and implement the new legislative requirements once they are finalised.

Disclosure of lack of independence

[Recommendation 2.2](#)

CBA supports the Commissioner's recommendation and, consistent with the recommendation, we will soon be updating our communications to customers to ensure that we disclose, simply and concisely, why their adviser is not independent, impartial and unbiased. This will include training for advisers.

Government review of measures to improve quality of advice and consider remaining exemptions on conflicted remuneration

[Recommendation 2.3, 2.6](#)

CBA welcomes the review and looks forward to participating in the process.

In July 2013, we ceased providing financial advisers with any payments or gifts that could be defined as conflicted remuneration awards (excluding exempt insurance payments). We also introduced a ban on conflicted commission tool in our systems, to ensure we detect any instance where advisers may receive a conflicted commission.

We are focused on ensuring our customers receive quality financial advice in their best interests. Since 2012, we have significantly transformed our advice business to fix and strengthen our processes and systems, lift education standards and change our culture. We have strengthened our quality assurance system, increased our oversight and monitoring of our advisers, and put in place stronger measures to prevent and detect inappropriate advice.

End grandfathered commissions

[Recommendation 2.4](#)

CBA supports the move to end grandfathered commissions. As announced on 9 October 2018, Commonwealth Financial Planning is rebating all grandfathered commissions from Colonial First State (CFS) products to its clients, and working with the remaining product providers to rebate grandfathered commissions paid from their respective products.

For our self-employed licensees, given the complexity around the arrangements, this will be implemented after legislative change.

ASIC to review life insurance commissions

[Recommendation 2.5](#)

CBA welcomes the review and looks forward to working with ASIC during the process.

Reference checking and information sharing

[Recommendation 2.7](#)

CBA is a subscriber to the ABA reference checking protocol and we would welcome the extension of this initiative to the remainder of the financial advice sector.

Reporting compliance concerns

[Recommendation 2.8](#)

CBA already reports serious compliance concerns to ASIC regarding individual financial advisers. We will make any necessary changes to our processes as soon as ASIC provides any new guidance around changes to the reporting criteria.

Misconduct by financial advisers

[Recommendation 2.9](#)

CBA will not tolerate any unethical behaviour and we are committed to addressing and reporting suspected misconduct.

CBA supports the Commissioner's recommendation to require licensees to take certain steps when they detect that a financial adviser has engaged in misconduct. We are establishing a more standardised approach across our broker and adviser networks.

Disciplinary system for advisers

[Recommendation 2.10](#)

CBA supports the implementation of this recommendation, which requires registration of financial advisers and a single, central disciplinary body for reporting of serious compliance concerns or conduct information.

For superannuation customers

No other role or office for trustee

[Recommendation 3.1](#)

CBA's superannuation business, CFS, supports the Commissioner's recommendation and is working to implement this structure. CBA's superannuation trustee boards are already comprised of a majority of independent directors, including independent chairs. We are also reviewing our conflicts management policies and will consider any enhancements in response to the Royal Commission.

No deduction of advice fees from MySuper accounts

[Recommendation 3.2](#)

CBA's superannuation business, CFS, supports the Commissioner's recommendation, is working through the changes required, and will take action to implement the new legislative requirements once they are finalised.

Limitations on deducting advice fees from choice accounts

[Recommendation 3.3](#)

CBA's superannuation business, CFS, supports the Commissioner's recommendation and is taking steps to design process and system changes to gain member consent on an annual basis. These initiatives will support members by providing a convenient and transparent way of authorising advice payments.

No hawking of superannuation products

[Recommendation 3.4](#)

CBA supports this recommendation and will implement the new legislative requirements once they are finalised. Consistent with this recommendation, CFS does not proactively sell new superannuation products through branches or engage in cold calling.

One default account

[Recommendation 3.5](#)

CBA's superannuation business, CFS, supports the Commissioner's recommendation and will implement the new legislative requirements once they are finalised.

No treating of employers

[Recommendation 3.6](#)

CBA's superannuation business, CFS, supports the Commissioner's recommendation, which reflects its existing practice. We welcome the proposed amendments as a sensible extension to the current provisions.

Civil penalties for breach of covenants and adjustment of APRA and ASIC responsibilities

[Recommendation 3.7, 3.8](#)

CBA supports these recommendations.

For insurance customers

No hawking of insurance products

[Recommendation 4.1](#)

CBA supports this recommendation and will implement the new legislative requirements once they are finalised. Consistent with this recommendation, CBA does not proactively sell insurance products through cold calling.

Deferred sales model for add-on insurance

[Recommendation 4.3](#)

CBA no longer offers Credit Card Plus or Personal Loan Protection insurance to new customers. CBA will implement the new legislative requirements once they are finalised.

Duty not to misrepresent, limits on avoiding life insurance contracts.

[Recommendation 4.5, 4.6](#)

We acknowledge the intent behind these recommendations, but note they will not apply to CBA as it has agreed to sell its life insurance business to AIA.

Other regulation changes

[Recommendation 4.7, 4.8, 4.9, 4.10](#)

These recommendations require legislative amendment to be implemented.

Development of universal definitions for all life policies attached to MySuper accounts.

[Recommendation 4.13](#)

CBA will implement this recommendation, once legislation defines what activities are prescribed.

APRA requirements on RSE Licensees regarding Group life policies

[Recommendation 4.14, 4.15](#)

We will work with APRA to develop the framework for implementing these recommendations.

For customers with complaints or disputes

Cooperation with AFCA

Recommendation 4.11

CBA supports the Commissioner's recommendation. Consistent with this recommendation, in late 2018, CBA developed a set of principles for engagement with the Australian Financial Complaints Authority (AFCA) and has agreed them with AFCA.

We believe AFCA is an efficient, effective and fair alternative to court for customers who are dissatisfied with the outcome of our internal dispute resolution. Our goal is for every engagement with AFCA to be proactive, honest, open and transparent to help resolve the customer's complaint.

We have updated our internal procedures around the provision of documents to AFCA and we have trained our Group Customer Relations team in line with these new processes.

Consistent with the Government's response to the Royal Commission, CBA will accept legacy complaints dating back to 1 January 2008, as requested by AFCA.

Compensation scheme of last resort

Compensation Scheme of Last Resort

Recommendation 7.1

CBA supports this recommendation to ensure that consumers receive compensation that they deserve.

Strengthening our culture and governance

To lift executive accountability

BEAR accountability for products

Recommendation 1.17

An underlying principle of CBA's approach to the Banking Executive Accountability Regime (BEAR) has been that the Executive responsible for manufacturing each product has end to end accountability for the design, delivery, maintenance and remediation of that products. APRA is expected to release its guidance on this recommendation in the second quarter of 2019 and CBA will make any amendments necessary to its BEAR accountability statements to ensure compliance.

We have already established a central BEAR team to maintain CBA's BEAR Accountability Map and Statements, take steps to effectively monitor internal management information for matters relevant to BEAR, and coordinate breach investigations.

Extension of BEAR

Recommendation 3.9, 4.12, 6.8

CBA supports the extension of a consistent regime, such as BEAR.

Consistent with this, CBA is currently developing accountability statements for its extended leadership team, including executives in NewCo. These statements have been developed based on the principles established by BEAR and will assist CBA to embed a strong accountability culture.

To further strengthen our remuneration practices

FSB remuneration principles

Recommendation 5.1

CBA is already reviewing and updating its remuneration framework to include the adoption of the FSB supplementary guidance on sound compensation practices.

Remuneration standards and non-financial risk

Recommendation 5.2, 5.3

In response to the APRA Prudential Inquiry, CBA already has a program of work underway to improve our remuneration framework and management of non-financial risk.

We have established a Non-Financial Risk Committee (NFRC) to strengthen governance and oversight of non-financial risk across CBA and further NFRCs in each line of business will create a robust escalation pathway.

Remuneration of frontline staff

Recommendation 5.4

As part of our response to the APRA Prudential Inquiry, CBA will conduct an annual effectiveness review of remuneration frameworks across CBA, including for our frontline staff.

We have made enhancements to remuneration to place greater emphasis on not only the balance of outcomes to be achieved by our people, but also the manner in which they are achieved.

We are continuing to evolve and enhance our remuneration frameworks.

Implement Sedgwick review

Recommendation 5.5

CBA has already fully implemented the Sedgwick recommendations for frontline teams and leaders in the branch network in relation to variable remuneration recommendations, with transitional arrangements in place for some lenders. The industry and CBA is awaiting guidance in relation to mortgage broker remuneration. We are supportive of measures that will improve customer outcomes, while ensuring a strong and viable broker network.

We are on track to address the remaining recommendations in the Sedgwick Report by 1 July 2020. Beyond customer satisfaction and advocacy, we are continuing to explore further measures of better customer outcomes.

Since the report was first released, the findings of the APRA Prudential Inquiry into CBA have also driven a strong focus on remuneration structures, governance and culture at CBA.

To reform our culture and governance

Changing culture and governance

Recommendation 5.6

Work is well underway to change CBA's culture and governance through our Prudential Inquiry Remedial Action Plan (RAP). Promontory Australasia provides independent assurance over the implementation of the RAP, and have confirmed that we are on track to deliver the plan by the due dates agreed with APRA. As of 31 December 2018, CBA had submitted 43 out of 154 milestones to Promontory for assessment.

We have elevated the importance of risk by establishing a Non-Financial Risk Committee at the executive level; we have clarified what we expect of our people through our purpose, values expectations and Code of Conduct, and we have more closely linked leaders' remuneration with their management of risk.

APRA supervision of culture and governance

Recommendation 5.7

CBA supports this recommendation and will fully co-operate with APRA's supervision of culture and governance.

To improve our interactions with regulators

Open, constructive and cooperative dealing

Recommendation 6.7

In response to the APRA Prudential Inquiry into our organisation, CBA has already made significant changes to strengthen our engagement with regulators.

Our new regulatory engagement model is focused on increased proactivity, transparency and responsiveness, and is currently being implemented throughout CBA.

We have also adopted 10 principles with ASIC for our new engagement model, including quarterly feedback on performance against the principles and Group Executive conversations with ASIC. The CEO also now has ultimate ownership of, and accountability for, regulator relationships.

These principles may evolve according to the wishes of individual regulators (e.g. through use of an open issues report).

Self-reporting contraventions

Recommendation 7.2

Consistent with this recommendation, and the recommendations of the ASIC Enforcement Review Taskforce made in December 2017, CBA is undertaking a program of work to understand and implement the changes required to address these recommendations (including, for example, around incident reporting, conflicts management and governance around misconduct).

Regulation and regulators

Industry codes

Enforceable industry codes

CBA will work with government and the ABA to progress these changes.

Recommendation 1.15, 1.16

Regulators and the law

Recommendations in relation to regulatory responsibility and approach

CBA supports these recommendations, which fall to ASIC, APRA and government to implement.

Recommendation 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.9, 6.10, 6.11, 6.12, 6.13, 6.14

Simplification of the law by eliminating exceptions and qualifications and identification of fundamental norms of behaviour

CBA supports these recommendations.

Recommendation 7.3, 7.4

Other recommendations

Application of National Consumer Credit Protection Act (NCCP Act)

Do not amend the NCCP Act to alter the obligation to assess unsuitability

CBA supports the conclusion reached by the Commissioner.

Recommendation 1.1

Do not extend NCCP Act to small business

CBA supports the conclusion reached by the Commissioner.

Recommendation 1.9

Recommendations not relevant to CBA

Removal of point-of-sale exemption

The exemption of retail dealers from the operation of the NCCP Act does not apply to CBA.

Recommendation 1.7

Remove the exclusion of funeral expense policies from the definition of “financial product”

This recommendation does not apply to CBA, as we do not operate this type of business.

Recommendation 4.2

Cap vehicle driver commissions

CBA does not sell add-on insurance through vehicle dealers.

Recommendation 4.4
