



Friday, 15 March 2019

ASX Announcement

NAB takes action on recommendations from Royal Commission

National Australia Bank today detailed its response, including a range of actions, to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Group CEO Philip Chronican said NAB supported 72 of the recommendations and would work with Government and regulators with a view to taking positive action as quickly as possible on the remaining areas, which relate to broker arrangements, definition of small business and BEAR accountabilities.

Mr Chronican said NAB had completed or was in the process of implementing 26 of the recommendations. Some changes were announced ahead of the release of the Final Report, including -

- announcing in July 2018 that NAB will not charge default interest to agricultural customers impacted by drought;
- announcing a Board Customer Committee to better oversee NAB's processes to ensure fair products and service outcomes and to evaluate customer feedback and complaints, and;
- removing grandfathered commissions for NAB Financial Planning advisors.

NAB has also decided to extend the protections of the Code of Banking Practice to small businesses with less than \$5 million in total borrowings, up from the previous agreed level of less than \$3 million.

"The Royal Commission's recommendations will help lead to a better, more customer-focused industry as organisations change in response. The Commission has also rightly challenged NAB to close the gap between where we are today and where we need to be," Mr Chronican said.

"We have to focus on earning back trust and this includes the actions we take in response to the Final Report and other issues we have faced at NAB.

"It includes how we compensate customers when we get it wrong; how we pay our people; how we hold ourselves accountable for running the bank and; how we build a culture that puts customers first every time."

NAB's response to each of the Royal Commission's recommendations is outlined in the attached document.

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NAB TAKES ACTION ON RECOMMENDATIONS FROM ROYAL COMMISSION

NAB supports the Final Report of the Royal Commission and believes it will lead to a better, more transparent financial services industry that is focused on getting it right for customers. The Royal Commission challenged NAB to close the gap between what we say and what we do – and today we provide an update on the actions we are taking to achieve that.

NAB agrees with 72 of the recommendations in the Royal Commission's Final Report and will seek clarity from the Government and regulators on the other areas with a view to taking positive action as quickly as possible.

We have completed or are in the process of implementing 26 of the recommendations. In some cases we have made improvements ahead of the Final Report. These include stopping charging default interest to farmers impacted by drought, removing grandfathered commissions for our NAB financial planning advisers and implementing the Retail Banking related Sedgwick review recommendations well ahead of schedule.

We have started the work to restore trust and make our organisation a better one for customers with a strategy to simplify the bank and its products and services. Last year we set out a reform program based on the APRA self-assessment process, which we released publicly last November. The program shapes how we want to operate and focusing on culture, accountability and governance. It has 26 clear actions around five core themes –

1. Bringing the voice of the customer back into the bank
2. Improving rigour and discipline in delivery
3. Improving accountability
4. Addressing issues and remediating customers
5. Achieving our desired culture

NAB has established a Board Customer Committee, led by Ann Sherry. This committee met on 5 March 2019 and will oversee a significant improvement in the importance given to the voice of the customer in our decision-making and a more intense focus on customer outcomes at NAB.

The Royal Commission's Final Report and our own reform program set out a clear way forward for NAB to earn the trust and build a culture which puts the customer first.

Further details on our progress on the Royal Commission recommendations are in the table below.

BANKING

NAB agrees with 13 of the 17 recommendations.

Recommendation	NAB's position
1.1 Amendment of National Consumer Credit Protection Act	Agreed – NAB agrees with the recommendation that the National Consumer Credit Protection Act (NCCP Act) should not be amended to alter the obligation to assess unsuitability.
1.2 Mortgage Brokers Best Interest Duty	Agreed – NAB believes Mortgage Brokers must always act in the best interest of the intending borrower.
1.3 Mortgage Broker Remuneration and 1.5 Mortgage Brokers as Financial Advisors	NAB will work with the Treasury-led working group to ensure that the broking industry remains viable, customers have choice and get the best possible outcomes.
1.4 Treasury-led working group	Agreed.
1.6 Mortgage Broker Misconduct	Agreed – NAB is implementing governance frameworks that are directed at more readily identifying and addressing poor behaviour and poor customer outcomes.
1.7 Removal of Point of Sale Exemption	Agreed – although not applicable to NAB.
1.8 Access to Banking Services	Agreed – NAB will work with the industry to amend the Banking Code in line with this recommendation, and is committed to supporting access to banking services for Indigenous customers, those in remote locations, and those who are not adept in using English.
1.9 No extension of NCCP Act to small businesses	Agreed.
1.10 Definition of “small business”	NAB supports the intent to expand the definition of small business, and, will expand our definition from aggregate borrowings of less than \$3m to aggregate borrowings of less than \$5m.
1.11 Farm Debt Mediation Scheme	Agreed – As Australia's largest agri-lender, NAB has been a long-time supporter of such schemes. NAB will actively support the establishment of and participate in a National Farm Debt Mediation scheme.
1.12 Land Valuations	Agreed – NAB is implementing changes to ensure that land valuations are conducted independent of the loan origination, processing and decision processes. These changes will be implemented by 30 June 2019.
1.13 Charging default interest	<p>Agreed – NAB announced in July 2018 that it will not charge default interest to any agri-customers impacted by drought.</p> <p>We are reviewing our approach to default interest for all borrowers.</p>

1.14 Distressed Agriculture Loan Management	Agreed – NAB has always had specialist agri-bankers. NAB supports the recommendations associated with dealing with distressed loans. NAB has a specialist agri-banking unit within our Specialised Business Solutions team. NAB only appoints receivers at the last resort.
1.15 & 1.16 Enforceable Code Provisions	Agreed – NAB will proactively work with the Australian Bankers Association (ABA) to implement any changes to the Code.
1.17 BEAR – Product Accountabilities	NAB has allocated responsibility to specific Accountable Persons for each step in the design, delivery and maintenance of all products offered to customers by NAB and any necessary remediation of customers in respect of any of those products. NAB will address this recommendation, in consultation with APRA, as part of any regulatory change.

FINANCIAL ADVICE

NAB agrees with 10 of the 10 recommendations.

Recommendation	NAB's position
2.1 Annual renewal and payment	Agreed – NAB Financial Planning salaried channel has made the decision and will commence the implementation of 12-month agreements on 1 April 2019 in place of Ongoing Fee Arrangements (OFA). The 12-month agreement will be offered in place of the current OFA to new clients and all existing clients on their next review.
2.2 Disclosure of lack of independence	Agreed – NAB will implement disclosures consistent with the recommendation for all NAB licensees.
2.3 Review of measures to improve the quality of advice	Agreed – NAB supports an industry review in 3 years' time.
2.4 Grandfathered Commissions	<p>Agreed – NAB agrees with the recommendation to remove Grandfathered Commissions as it moves to a fee-for-service model.</p> <p>NAB Financial Planning salaried channel has commenced turning off Grandfathered Commissions with the benefit being passed through to clients via a rebate or a fee reduction effective 1 January 2019.</p>
2.5 Life risk insurance commissions	Agreed – NAB agrees with the Life Insurance Framework (LIF) reforms and the planned review at the conclusion of the LIF transition period.
2.6 General insurance and consumer credit insurance commissions	Agreed – NAB supports the recommendation and review of general insurance and consumer credit insurance commissions as part of the overall review to improve the quality of advice as per recommendation 2.3.

	The review terms of reference should ensure that customer interests come first, and do not inadvertently reduce access to advice.
2.7 Reference checking and information sharing	Agreed – MLC Wealth has already signed up to the ABA reference checking protocol.
2.8 Reporting compliance concerns	Agreed.
2.9 Misconduct by financial advisers	Agreed – NAB’s approach to dealing with adviser misconduct is already in line with the proposed recommendations.
2.10 New disciplinary system	Agreed.

SUPERANNUATION

NAB agrees with 9 of the 9 recommendations.

Recommendation	NAB’s position
3.1 Trustee – “No other Role or Office”	Agreed – NAB supports the principle that the trustee of an RSE should be prohibited from assuming any obligations other than those arising from or in the course of its performance of the duties of a trustee of a superannuation fund. Clarity is required as to how this will be implemented as to what extent the change will relate to entities and individuals.
3.2 No deduction of fees from MySuper Accounts	Agreed – We support strengthened controls over the deductions of advice fees from super accounts and fees for service in general. We will work with Treasury and the industry on the detail for implementation noting the importance of all customers being able to access advice, if they choose, and receive best possible outcomes.
3.3 – No deduction of fees from Choice Accounts	Agreed.
3.4 Hawking of Superannuation products	Agreed.
3.5 Single Default Superannuation Accounts	Agreed.
3.6 Treating of Employers	Agreed.
3.7 Civil Penalties	Agreed.
3.8 ASIC and APRA responsibilities	Agreed.
3.9 Extension of BEAR regime to Superannuation	Agreed.

INSURANCE

NAB agrees with 15 of the 15 recommendations.

Recommendation	NAB's position
4.1 No hawking of insurance	Agreed – Clarity is required around the definition of “hawking” as NAB believes an insurance product directly related to a banking product should be discussed with a customer during the customer inquiry. (e.g. APRA requires mortgage customers to hold building insurance (APG223)).
4.2 Removing the exemptions for funeral expenses policies	Agreed – NAB does not sell funeral expenses insurance.
4.3 Deferred sales model for add-on insurance –	Agreed.
4.4 Cap on commissions and Add-on insurance sold by motor vehicle dealers	Agreed – NAB does not sell add-on insurance products through vehicle dealers.
4.5 - 4.8, 4.12 – Insurance Contracts	Agreed – Although not an insurer, NAB agrees with the intent of proposed measures that protect customers and will achieve fairer insurance outcomes.
4.9 Enforceable code provisions	Agreed.
4.10 Extension of Sanctions Powers	Agreed.
4.11 Co-operation with AFCA	Agreed.
4.13 Universal terms review	Agreed.
4.14 Additional scrutiny for related party engagements	Agreed.
4.15 Status attribution to be fair and reasonable	Agreed.

CULTURE AND GOVERNANCE

NAB agrees with 7 of the 7 recommendations.

Recommendation	NAB's position
5.1 Supervision of remuneration – principles, standards and guidance	Agreed.
5.2 Supervision of remuneration – aims	Agreed.
5.3 Revised prudential standards and guidance	Agreed.
5.4 Remuneration of front line staff	Agreed.
5.5 Sedgwick Review	Agreed – NAB has fully implemented the Sedgwick review Retail Banking recommendations ahead of schedule. Further industry engagement is required on the Broker recommendations.
5.6 Culture and governance.	Agreed – The recommendation is aligned with NAB's approach to address weaknesses identified in NAB's Self-Assessment. Actions include improving leader capability, increased accountability with a focus on ensuring that we get the best possible outcomes for our customers – every time.
5.7 Supervision of culture and governance	Agreed.

REGULATORS AND OTHER AREAS

NAB agrees with 18 of the 18 recommendations.

Recommendation	NAB's position
6.1 - 6.14 Regulatory Bodies and Reforms	Agreed – NAB agrees with all 14 regulatory recommendations which will require ASIC, APRA and the Government to implement. NAB will proactively support their implementation.
7.1 Compensation Scheme of Last Resort -	Agreed.
7.2 Implementation of ASIC Enforcement Review Taskforce	Agreed.
7.3 - 7.4 Exceptions or Qualifications.	Agreed – NAB agrees with the simplification of the law by eliminating exceptions and qualifications and identifying fundamental norms of behaviour.