

Code Compliance Monitoring Committee Inquiry into Clause 14 of the Code of Banking Practice

March 2007

In November 2006, the Code Compliance Monitoring Committee (“the Committee”) established an Inquiry into banks’ interpretation and compliance with Clause 14 of the Code of Banking Practice (“the Code”) which reads as follows:

“Account suitability

*If **you** tell **us** that **you** are a low income earner or a disadvantaged person (regardless of whether **you** are an existing or prospective customer but not if **you** are a **small business**), **we** will provide **you** with details of accounts which may be suitable to **your** needs. **We** will also do this if **you** ask for this information or if, in the course of dealing personally with **you**, **we** become aware that **you** are in receipt of Centrelink or like benefits.”*

For the purpose of this Inquiry, the Committee chose to focus on transaction accounts. References to products, services and accounts in this Report are therefore limited to savings and account transactions.

Clause 14 does not oblige banks to provide specific accounts that address the needs of low income earners or disadvantaged persons, but some banks choose to offer such accounts. Accounts such as these are sometimes referred to as ‘Basic Bank Accounts’, and this description will be used in this report, although the terminology does not appear in the Code.

Background on Basic Bank accounts

It is not possible to identify a single standard industry-wide product due to competition law restraints on product pricing collaboration in Australia. The Australian Bankers Association (ABA) provides guidance and describes as a ‘good starting point’, for a basic bank account to include an everyday transactional banking account with no account keeping fees and some fee-free transactions. For the purposes of this report, the Committee has accepted this definition. Further information on basic bank accounts can be found on the ABA’s website www.bankers.asn.au.

Executive Summary

The Inquiry revealed that banks are interested in addressing the needs of low income and disadvantaged customers, both through the products available on the market and in directing such customers to appropriate products.

The Inquiry indicated that banks generally assessed customer needs before recommending an account type. It was also evident that staff training focused on how to conduct meaningful assessment of customer needs and on developing a high level of product knowledge. Training on Clause 14 was usually referred to specifically in training on the Code, but not as part of customer needs or product training. Clause 14 issues should be integrated into broader staff training to ensure compliance.

The Committee found that 10 out of 13 subscribing banks offered a basic bank account. In most of these banks, this account was specifically aimed at low income or disadvantaged customers and customers receiving government benefits (“Concession Customers”), and eligibility criteria existed. In other banks the account was available to all customers. The specific discounts offered through the basic account and number of accounts available differed between banks.

Not surprisingly, the results of the shadow shopping reflected that customer satisfaction was strongly correlated to the simplicity of the product and its fee structure. Staff provided more accurate and direct messages to customers (in this instance shadow shoppers), where the product was easily identifiable as a basic account, the fee structure and eligibility criteria were clear and there were not many accounts to choose from. The accounts that staff recommended and the marketing material they provided to the shadow shoppers varied significantly within the Banks involved, and the Committee found that both the quality and utility of the information provided to customers could be improved.

Methodology

The Inquiry involved 3 stages:

Stage 1 – Audit across subscribing banks

A desk audit of all subscribing banks was conducted. This reviewed the different types of accounts offered to Concession Customers and the criteria applied to identify such customers and ensure they are directed to suitable accounts. Banks were questioned about their interpretation of Clause 14 and asked for statistical data on relevant account numbers and the number of complaints for such accounts.

Stage 2 – Shadow Shopping -selected focus banks

A shadow shopping exercise to test compliance with Clause 14 was conducted. A total of 287 shadow shopping visits were conducted across four banks using the following two scenarios:

Scenario 1

You are receiving Newstart allowance and in receipt of a Health Care Card.

Your requirements are limited to:

- *ATM and EFT access;*
- *the ability to set up direct debits, but*
- *you cannot afford to pay fees.*

Scenario 2

You are an aged pensioner with a Pensioner Concession Card. You have no income apart from the pension. Your requirements are limited to:

- *branch access because you are not confident using ATM or EFT facilities;*
- *a direct debit facility, and*
- *no required minimum balance in the account.*

Approximately 65% of visits in each case were to metropolitan branches and 35% to rural branches, which were randomly selected¹. Visits took place across four States.

Stage 3 – Detailed Compliance Visits - focus banks

Kirsten Trott, the Chief Executive Officer and Roger Knight, consultant to the Inquiry undertook compliance visits with the banks included at stage 2. Through discussions with each bank's compliance, products and training teams, further information regarding banking products, staff training and compliance mechanisms relevant to Clause 14 was obtained. Feedback as to the results of the shadow shopping exercise was provided.

Findings

Stage 1 – Desk Audit

Accounts offered

Almost all subscribing banks offered at least one product which had no monthly account maintenance fee and some fee-free transactions (ie a basic account). Many banks offered unlimited free transactions on their basic accounts. Most banks offered 2 basic products, one aimed at the low income market and another for the senior or pensioner market. Often the products aimed at the seniors'

¹ There is no evidence in the results to show any differences between metropolitan and rural branches in any of the comparisons being made.

market accrued a higher rate of interest in line with the deemed rate of interest set by the Federal Government.

Eligibility for products

Although some banks offered basic accounts to all customers regardless of their income level, some pointing out that this was in line with bank philosophy, most banks restricted access to some or all of their basic accounts. For the purposes of Clause 14, most banks interpreted “low income” and “disadvantaged” by reference to the receipt of a government benefit. In most cases, although it did vary between banks, a Commonwealth Government Health Care Card, Pension Card or Veterans Affairs Card was required to be eligible for the basic accounts. Some banks included “access disadvantaged” people (ie those with physical disabilities or living a long way from an ATM,) within the interpretation of “disadvantaged”. Discounted products were also commonly available to youths, students and elderly customers.

What discounts were offered?

Of those banks that offered a basic account (ie one with no account keeping fee and some free transactions), there was a range of discounts available. These were often tailored to the target market for that product, for example pensioner/senior accounts usually enabled reduced fees for in-branch transactions. Apart from free transactions, some banks offer free internet and electronic banking and a couple of banks waived or discounted dishonour and reference fees. Most banks continued to charge customers for other bank ATM transactions, although at least one bank did not charge customers with physical or intellectual disabilities for this service.

In the Committee’s view, banks should provide simple identifiable accounts which are flexible enough to meet the differing needs of Concession Customers. Whilst the eligibility criteria most banks use for basic accounts (possession of a government benefit entitlement card) is clear and ascertainable, there is a general lack of flexibility in the products available and this could be improved.

It was beyond the scope of this Inquiry to consider whether the range of features offered across products was “sufficient”. The Committee notes there are various other discussions and processes that make comment on the appropriateness of the discounts offered through basic account products. The Committee does, however, make some suggestions based on best practice later in this paper.

Identification of a Concession Customer

Most banks stated that customers would be identified as low income or disadvantaged during the sales process, through which sales staff conduct an analysis of customer needs. Some banks provided copies of the templates or guides that staff use when assessing customer needs and it was seen from these,

that often the analysis includes questions about a customer's occupation and current financial situation. Other banks stated that the onus was on the customer to inform the bank of their position.

Some banks reiterated that it was not their philosophy to segment customers and to treat those segments differently and some banks stressed that respect for customer privacy discouraged asking questions about the customer's financial position.

The Code encourages banks to be proactive in identifying customers in financial difficulty and those with special needs. To achieve this staff cannot simply reply on customers self-identifying themselves as eligible for a particular product. The findings of this Inquiry indicate that once customers are so identified it is important that staff have the tools to enable them to easily cross-reference the needs of that customer to suitable products.

Most banks interpreted "dealing personally" as having a discussion with a customer in person or over the telephone. Few banks included email and mail contact with a customer as "dealing personally" with them, although perhaps this was implied. The Committee interprets "dealing personally" as any contact the bank has with the Customer or its properly authorised representative, in person, over the telephone or in writing (whether via email or mail).

Impact of FSRA obligations

A couple of banks stated that they had a 'no advice' policy and so provide the customer with information about all accounts to enable the customer to decide which account is right for them.

During stage 3 of the Inquiry, most banks mentioned that tellers are unlikely to have completed the FSRA training and hence would not have been able to recommend an account but would rather only give factual information before referring the customer onto a sales consultant. There is a risk with this approach that some customers will not be properly advised and that Code obligations will not be met. The Committee is of the view that it would be advantageous for banks to train all sales staff on FSRA obligations as was the case at one of the four banks interviewed at stage 3.

Staff Targets

The Committee was pleased that no bank rated basic accounts differently to other fee paying accounts when assessing sales targets for staff.

Advertising and marketing of accounts

Banks provided the Committee with a range of marketing material as part of this Inquiry. Some banks had specific marketing material for Concession Customers.

Others include a specific reference that the bank offers products to low income earners and customers with special needs, in general material. Another set of banks referenced the product in the general product disclosure statements. It was easier to find information about basic accounts in some materials than in others.

The Committee felt that at a minimum, banks should make reference in general material to basic account products and preferably, specific brochures on basic account products should be available. There was some evidence that at a few banks, basic account material was not given the same prominence as the material for fee paying products and the Committee views any such approach as inconsistent with the spirit of the Code.

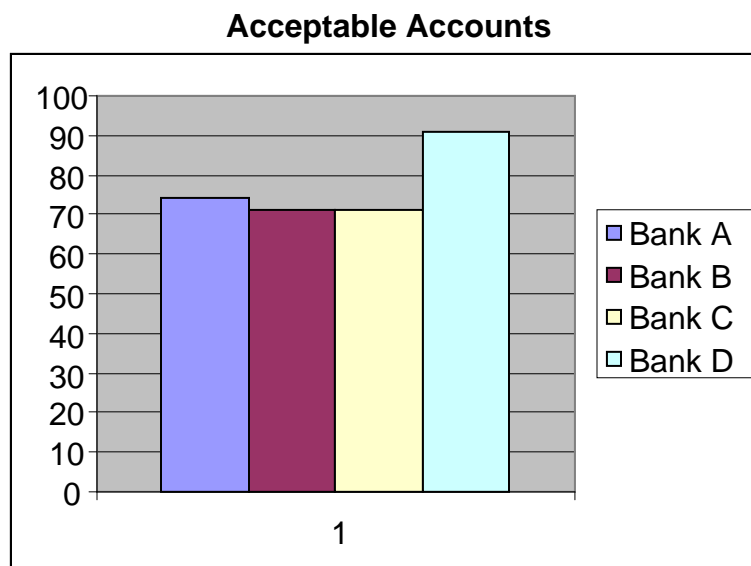
Stage 2 - Shadow Shopping Results

Four banks took part in stages 2 and 3 of the Inquiry. The participants in the shadow shopping exercise (the shoppers) completed a questionnaire (as attached at Annexure A) on their findings. The shoppers provided factual and perceptual comments on their experience.

Accounts offered

It is not easy to compare the results of the four banks in relation to the appropriateness of accounts suggested to the shoppers as the banks surveyed do not all have specific accounts that directly fit the two scenarios used.

The figures in the table below comprise accounts offered which, subject to reasonable circumstances, might address the scenarios posed. Albeit there are a number of variables which make this comparison tenuous, the table does indicate that 25% of the shoppers did not believe they received a satisfactory account option.

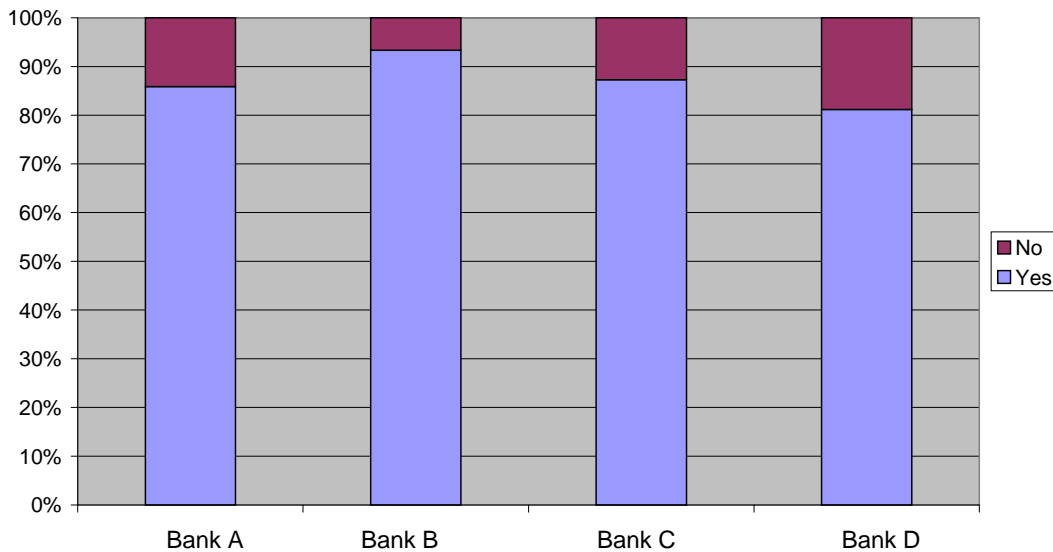


The Experience in the bank

The shoppers' perception of their experience at the banks can be better compared.

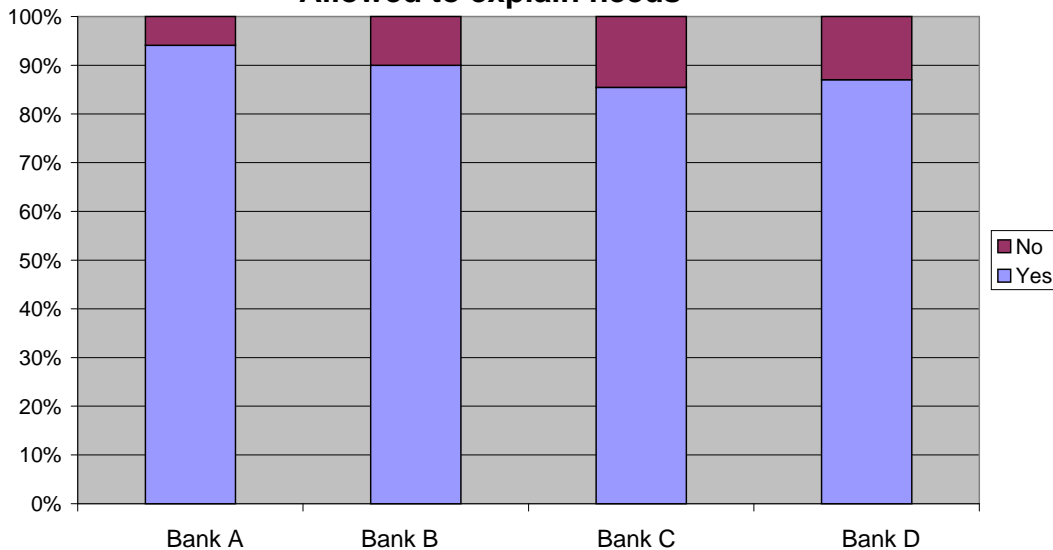
Shoppers were asked to comment upon their comfort levels in discussing their needs when inquiring about opening an account at the branches visited. As can be seen from the table below most shoppers felt comfortable, but not surprisingly given the scenarios involved divulging sensitive information, some shoppers commented about being in close proximity to other customers during the discussion.

Comfort of discussion



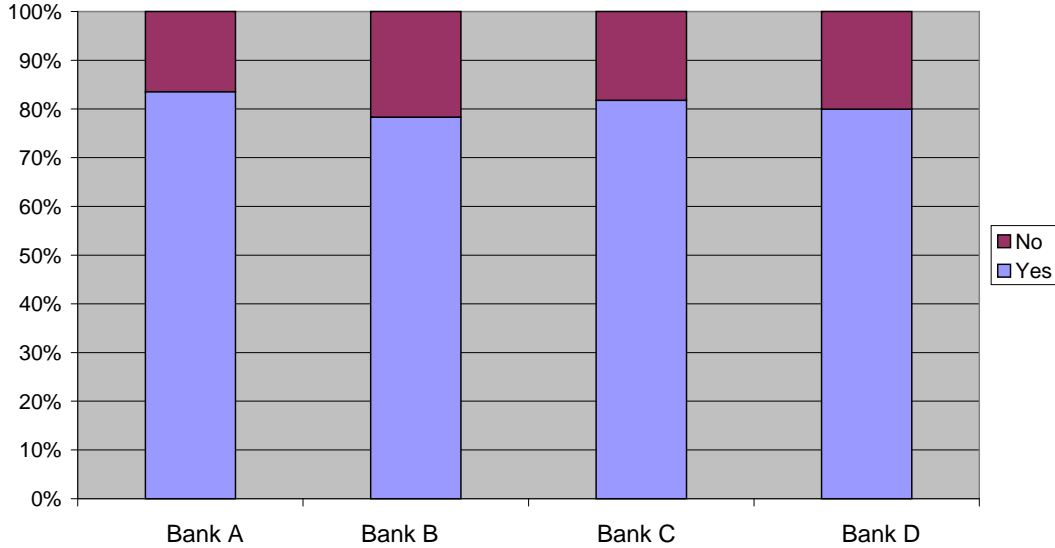
The shoppers were generally happy that they were given adequate time and staff members listened carefully when explaining their circumstances.

Allowed to explain needs



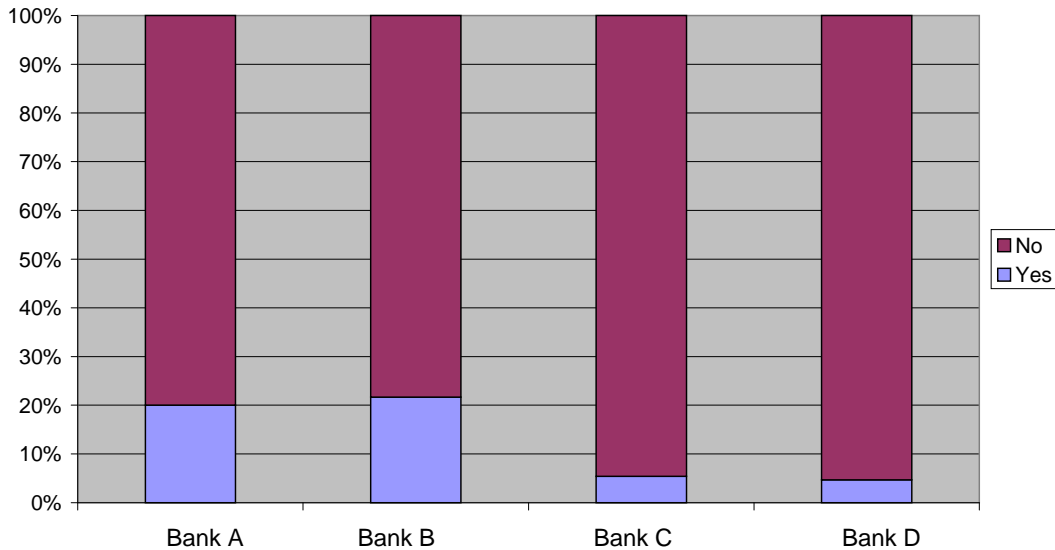
Shoppers also indicated that staff members quickly identified an account that met their needs, although it should be noted that this account was not always the most suitable.

Identification of account

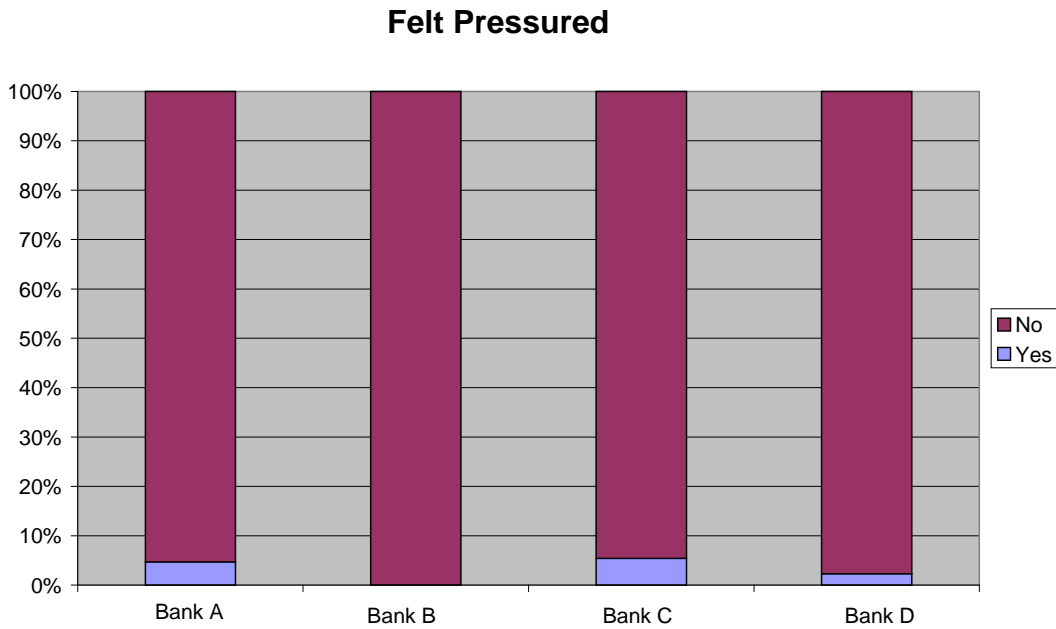


A significant number of shoppers considered the account that they were offered to be in excess of their needs

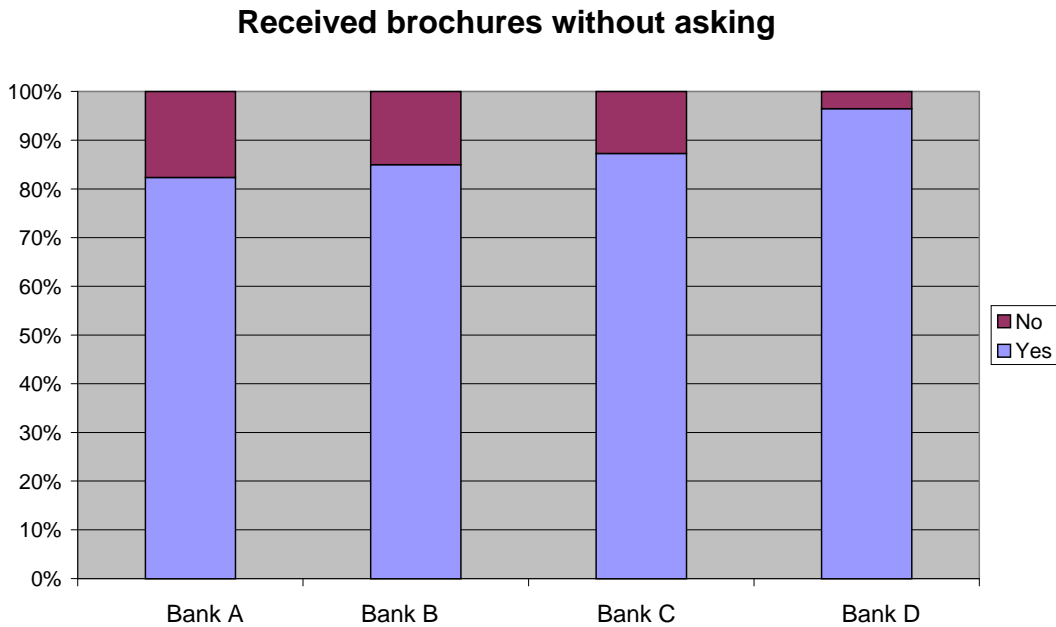
Account exceeding needs



Few customers felt that they were pressured into accepting either the account offered or a less advantageous one.

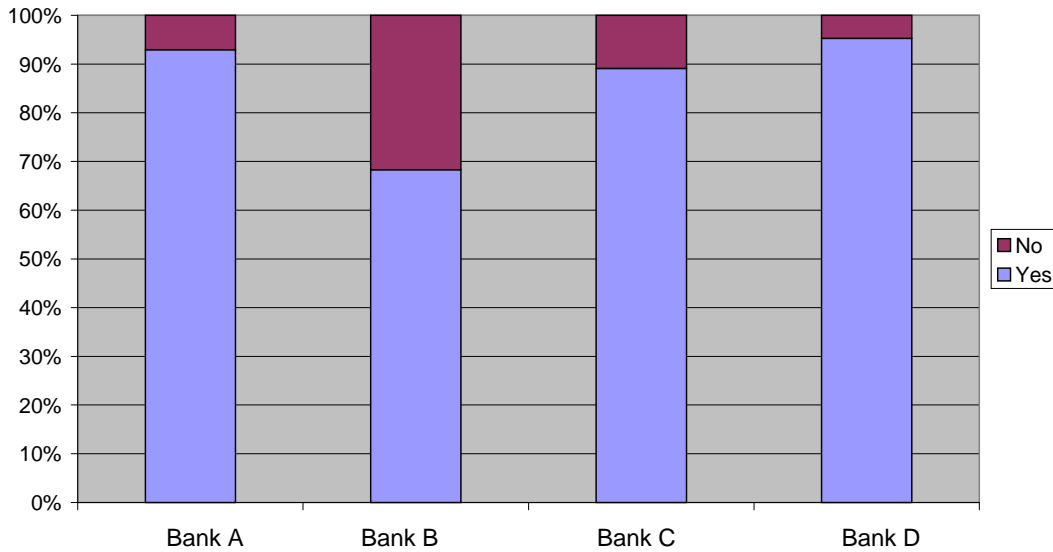


Most shoppers were given information without them having to ask, however, there was a lack of consistency within all banks as to the information provided. This is an aspect on which the banks should consider issuing explicit guidance.



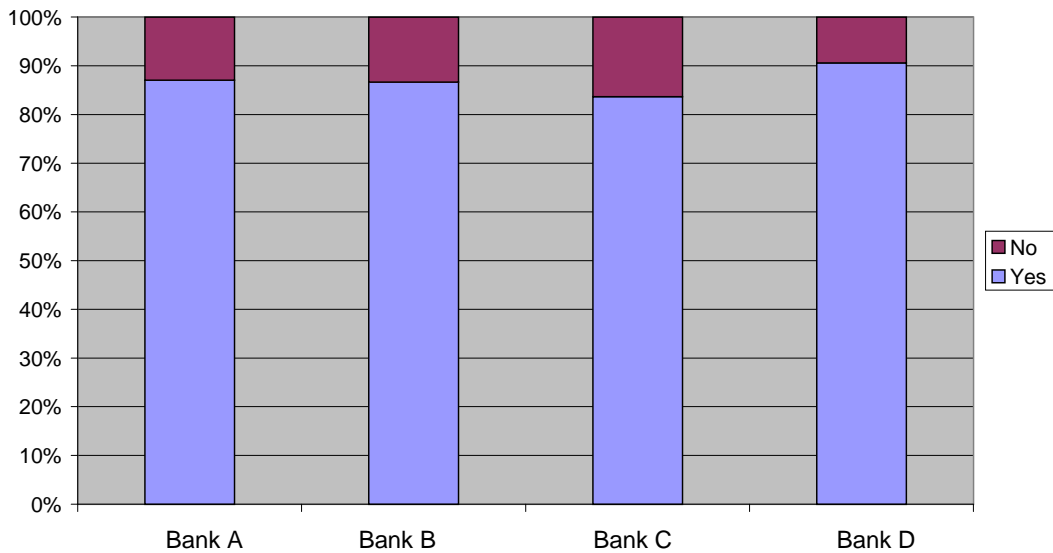
The shoppers were also asked whether they believed that they obtained information throughout their visit that was appropriate to their expressed needs and these results distinguish the banks more clearly.

Obtained appropriate information



Overall the reviewers considered it a relatively easy process to obtain from the banks information and accounts pertinent to their enquiries².

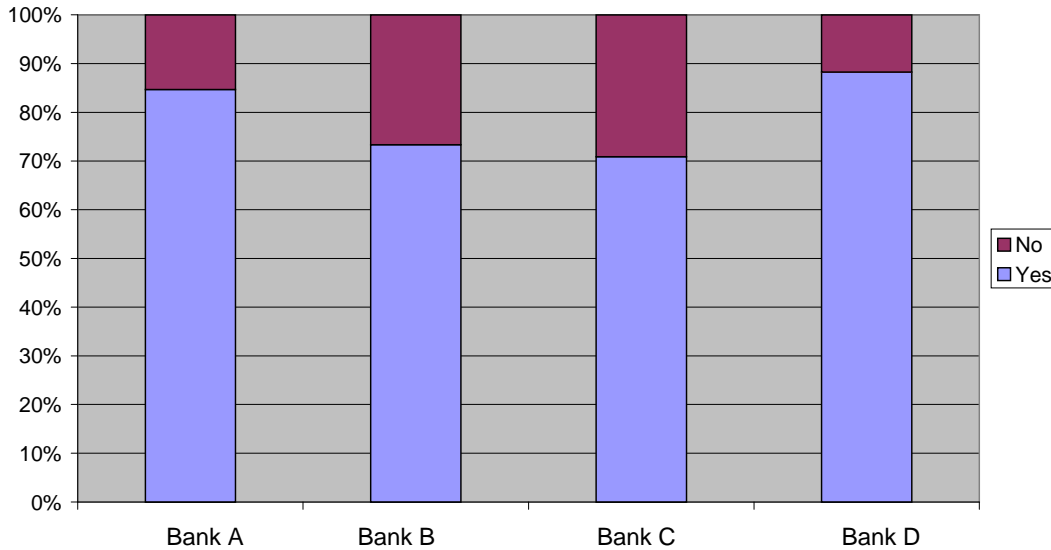
Easy to obtain what was wanted



² Shoppers were unaware of the basic account structure at each bank and could have been satisfied even if they had received incorrect information.

Perhaps the most relevant opinion on the overall experience and obtaining what reviewers felt was correct for their circumstances, was their response to whether they would recommend the bank to another person in similar circumstances

Would recommend this bank



The shoppers' responses to whether they would recommend a bank, gives the best overall indication of the experience. Without giving detail in this report which would identify the banks involved, the results show generally that simplicity in account structure is a principal determinant in which banks the shoppers would recommend. Banks D and A have accounts that can be easily recognised as basic accounts and have simpler structures. In comparison, Banks B and C offer more multifaceted accounts that can be complex for potential customers to understand. In these instances, the mechanics of the accounts and choice of an appropriate option to fit the circumstances of the scenario is complex and this is borne out by some shoppers' comments.

All banks have numerous brochures on different accounts and other information. Banks A and D both have straightforward brochures on their basic accounts which should make it easier to provide appropriate information to Concession Customers. Systems within each bank to provide appropriate simple brochures and consistent policies to guide issue would ensure correct information was provided. Importantly, this would also avoid overburdening customers, who may have comprehension and access challenges, with extraneous information.

Where bank staff had provided business cards to enable direct contact with staff on unresolved matters, shoppers gave a more favourable review of the bank and banks should consider increasing the use of business cards in everyday retail banking.

Stage 3 – Compliance Visits

Direction to correct account (product knowledge and training)

The banks involved at stage 3 of the Inquiry were asked how they ensured that Concession Customers (low income or disadvantaged customers or customers on benefits) were directed to an appropriate account. All banks stated that their staff were trained to have good product knowledge and that once a customer had been identified as a Concession Customer, the staff member's knowledge of the products available would ensure the customer was directed to the correct account. Some banks assisted staff to find the right account quickly and easily, by providing booklets, flip charts or dedicated intranet pages.

Staff training and Procedures relevant to Clause 14

Staff training manuals were not reviewed as part of this Inquiry but discussions did take place with training and development management as to how staff were trained to ensure compliance with Clause 14.

Training on Clause 14 and account suitability issues were mostly included as part of Code compliance training with many banks making specific reference to Clause 14 in that training. Other than this training, relevant training programs for sales staff focussed on product knowledge and assessing customer needs, but these programmes did not include reference to Clause 14 or related issues. None of the banks interviewed currently include any training on how to handle low income, disadvantaged or special needs customers. Similarly role plays used to enhance training on assessing customer needs do not include scenarios relating to low income or special needs customers. One bank mentioned that they were considering including this in the future.

The Committee feels that current training regimes do not recognise the relevance of Clause 14. Customer service and need assessment training and training on basic account products could benefit from a component on the Clause 14 requirements and should be linked to training on financial hardship.

As part of a bank's proactive approach to customers in financial difficulty, as required under the Code, all staff who deal directly with retail banking customers (not just sales staff) should be trained on the issues affecting Concession Customers, how to recognise such a customer and how to deal with them. Often Concession Customers will have a lower level of financial literacy than other customers and may require a more in-depth explanation of account structures and fees.

At least one bank has a procedure advising staff of what actions they should take and assistance they should offer if a customer is receiving a government benefit.

The Committee would like to see other banks following this lead and give clear guidance to staff on what procedures to follow for Concession Customers. Depending on the customer's needs this may include, in addition to direction to a suitable account, providing the customer with information in a large font format, assisting with ATM use or putting the customer in contact with a financial hardship officer. Introducing such a procedure would assist compliance with Clauses 14 and 25 of the Code.

None of the banks visited at stage 3 of the Inquiry showed the Committee any evidence that non sales staff were trained to consider the application of Clause 14 to customers whose circumstances change, other than perhaps as part of Code compliance training.

Change in circumstances

Although the sales process enabled banks to identify and direct a new Concession Customer to open an appropriate account, the banks were less sure of whether and how information about basic accounts was given to existing customers whose circumstances had changed. Most banks stated that the onus was on the customer to inform them of a change of circumstances. At most banks staff interviewed expressed a belief that if non sales staff (eg in collections or mortgages) were informed that a customer had, for example, lost their job or become a pensioner, that staff member would suggest to the Customer that there might be a more suitable account for them and encourage them to discuss this with sales staff.

Clause 14 clearly applies to a customer whose circumstances have changed such that they are now a Concession Customer (e.g. have lost their job, become ill, or are become somehow disadvantaged). The banks interviewed did not demonstrate adequate monitoring systems to ensure customers whose circumstances had changed were being advised of accounts suitable to that change in circumstances. Whilst the onus must necessarily be on the customer to notify the bank of a change in circumstances, customers may not be aware of the options available to them and so staff must recognise when Clause 14 applies and advise as to account suitability, in order to comply with it.

Whilst some banks stated that it was possible to identify customers who had government benefits paid into their account in order to ensure customers who were receiving benefits had suitable accounts, each bank said that they had never done so. The banks indicated that they thought this would be unpopular with customers.

Compliance

The banks had different compliance regimes to monitor staff training, product compliance and regulatory compliance. Of the banks interviewed, most stated that they did not overtly monitor whether customers had an account which was appropriate to them, but relied on staff to detect that another account might be more suitable.

Whilst it is unrealistic to expect banks to check each and every account, account suitability did not seem a concern at branch or compliance level. The Committee would welcome banks' compliance teams reinforcing with staff the importance of account suitability for Concession Customers and including some form of monitoring at branch manager level.

Complaints relating to Clause 14

At stage 1 some banks stated that they were unable to provide the Committee with numbers relating to complaints relevant to Clause 14. Of those banks at stage 3 that could identify Clause 14 complaints, the types of complaints received were that:

- Customers had not been informed that they were eligible for a basic account;
- The eligibility criteria was problematic;
- Customers had been told the account was fee free and they had been charged for using a foreign ATM;
- Customers had been charged account keeping fees on basic accounts;
- Customers had a basic account but the account reverted back to a fee paying account after the customer had not satisfied the bank that she was still eligible for the basic account, and
- Customers believed that they had a basic account and in fact did not.

The Committee expects that, as part of the banks' annual compliance statements, banks will provide accurate statistics of Code breaches. This includes breaches of Clause 14.

Best Practice Recommendations

In addition to the Committee's comments above, it has identified best practice suggestions relevant to Clause 14 and has identified areas for improvement. The Committee recommends that banks implement the practices set out below.

Accounts structure and clarity:

The Committee considers that a basic account should:

- have no account maintenance fee, unlimited free transactions either in branch, via ATM, telephone or internet banking, no fees for electronic transfers or direct debits, reduced dishonour fees;
- waive other bank ATM fees for people with a physical or intellectual disability or who live in an isolated area and do not have practical access to their bank's ATM (ie access disadvantaged);
- be easily identifiable by staff and customers as a basic account (avoid too many basic accounts);
- have a simple and easy to understand fee structure;
- have clear eligibility criteria but balanced with management flexibility to apply concessions on a case by case basis;
- be marketed specifically, displayed in equal prominence to other account information and be referenced in a general document explaining that accounts suitable for Concession Customers are available, and
- be aligned to the needs of the different types of Concession Customers but flexible to avoid stereo-typing of the Concession market. Examples - allow free in-branch transactions for elderly or disabled customers and reduce direct debit and dishonour fees for low income earners.

Staff training

The Committee recommends that staff training:

- is kept up to date and regularly refreshed, particularly on product knowledge;
- is extended to cover the appropriate distribution of brochures relevant to customer needs;
- specifically includes guidance on low income issues and includes scenarios with low income or disadvantaged consumers, and

- on low income issues and Clause 14 requirements is extended to non sales staff who will need to identify Clause 14 issues if a customer's circumstances change.
- compliant with FSRA requirements, is provided to all branch staff.

Procedures and assistance for staff

The Committee recommends that staff are provided with:

- specific procedures, linked to financial hardship procedures, advising staff on what to do if a customer is receiving governments benefits;
- training on these procedures;
- needs analysis templates to assist staff in ensuring they have fully understood customer needs;
- a quick reference guide to products and an explanation to staff as to who products are aimed at/suitable for and what brochures go with what products;
- guidance or procedures on what brochures are to be given to Customers inquiring about opening a new account;
- business cards (even if branch labelled for the staff member to write their name on) for potential customers, and
- procedures and guidance to staff regarding what action to take when a Concession Customer is no longer eligible for a basic account.

Compliance role

The Committee recommends that banks:

- share information between training, product and compliance teams;
- involve compliance personnel with product development and product changes both at the development of a new product and a when determining a product should be changed, and at sign off stage, and
- introduce some monitoring of account suitability (e.g. ask if Branch managers have considered account suitability when supervising sales staff).

Annexure A

Shadow shopping questionnaire and brief

Please complete the attached questionnaire following your visit to the bank specified and attach any leaflet(s)/brochures that you were given. If you feel that you wish to comment further against any question, please do so in the space provided.

This questionnaire should be completed based only on the scenario that you have been given and your perception of how the bank reacted to your scenario.

When entering the branch, please proceed to the logical place of information (in this order if available - enquiry desk, account managers in banking hall or cashiers) and this will depend upon the size of branch. Please indicate that you are enquiring about opening an account and would like to speak to someone who could help.

You will be enquiring as above about a straightforward account and have limited needs (please avoid using the words basic, simple or concessional). At this point you are enquiring only. Say that you do not have any account with the bank at this time and if you are asked about identification, state that you do not have the required documents with you but will be able to provide them if you decide to open an account.

If an account(s) is offered, please ask for a brochure or any other informative leaflet and note where this comes from i.e. is there a range of brochures visible in the branch and is the brochure you are given displayed there? If you are offered two accounts, please ask the branch to identify which would be best for your needs. Do not get involved in further discussion including your contact details and leave once you have the account details.

Questionnaire

Job Number: 51593

Bank		
Location		
State		
Scenario	2	
Date Shopped	/ /06	Time:
Interviewer Name		

1. Who did you approach for assistance?
- Enquiry desk.....1
 - Account Manager.....2
 - Cashier.....3
 - Other Specify _____.....9

2. Were you directed to another person?
- Yes1
 - No.....2

If Yes at Q2:

- 2b Who were you redirected too?
- Enquiry desk.....1
 - Account Manager.....2
 - Cashier.....3
 - Other Specify _____.....9

3. Did you feel comfortable in discussing your requirements where you were interviewed?
- Yes1
 - No.....2

Please comment on any other information relevant to this question

4. Do you feel that you were allowed fully to explain your circumstances?
- Yes1
 - No.....2

Please comment on any other information relevant to this question

5. Did the person immediately explain there was a specific account that met your needs?

Yes1

No2

Please comment on any other information relevant to this question

6. If you were offered two accounts, can you recall which two and did the person respond to you asking them to indicate which was best? If not write NO and go to Q7.

7. Were you encouraged to consider an account which appeared to exceed your needs?

Yes1

No2

Please comment on any other information relevant to this question

8. Did you feel pressured to accept this other account?

Yes1

No2

Please comment on any other information relevant to this question

9. Were you also encouraged to take a

	Yes	No
9a. Credit Card	1	2
9b. Internet banking	1	2
9c. Cheque Book	1	2
9d. Any Other Service	1	2

Please comment on any other information relevant to this question

10a. Were you given a leaflet / brochure or other literature?

Yes1
No.....2

If Yes at Q10a answer 10b and 10c.

10b.

Was the leaflet/brochure or other literature given without asking for it?

Yes1
No.....2

10c. Was the leaflet/brochure or other literature on display with other brochures?

Yes1
No.....2

Please comment on any other information relevant to question 10a-c

11. Did you feel that you obtained information appropriate to your needs?

Yes1
No.....2

Please comment on any other information relevant to this question

12. Do you feel it was easy to obtain what you wanted?

Yes1

No2

Please comment on any other information relevant to this question

13. Would you recommend this bank to another person in a similar situation to yourself?

Yes1

No2

Please comment on any other information relevant to this question

14. Any other comment on the experience?
