Industry Data Report 2020–21

Part B of Compliance Statement

November 2022

BCCC
Banking Code Compliance Committee

About this report

This report provides an overview of the activities of the Australian Banking Association's (ABA's) member banks in the reporting period of 1 July 2020 to 30 June 2021.

It follows our analysis of the Annual Compliance Statement submitted by member banks, and presents our findings in three main focus areas:

- Financial difficulty and debt collection
- Responsible lending, and
- Complaints handling.

The report also provides insights into various areas of bank operations presented as supplementary information in the appendix.

Our reporting helps interested stakeholders identify current and emerging issues of concern for the industry. It also encourages good practices for banks in meeting obligations to and complying with the Banking Code of Practice (the Code).

Note: The information in this report has been de-identified.

All bank names are replaced by placeholders, such as 'Bank A'.

The largest four banks are referred to as 'major banks' or 'major bank'. For aggregated information, the large banks are referred to as 'major banks' and the others as 'non-major banks', 'smaller banks' or 'other banks'.

Contents

Chair's message

I am pleased to present this industry data report, which looks at the operations of subscriber banks and provides insights into their compliance with the Code in a range of important areas.

Crucially, the information and insights offered in this report are not readily available through other independent bodies.

At the Banking Code Compliance Committee, banks provide us with information as part of their reporting and this places us in a unique position to offer valuable analysis of their operations and compliance.

From this position, we have a responsibility to report the findings of our analyses and present them to the industry's many interested stakeholders. Keeping stakeholders informed is an important part of our purpose.

With our overarching purpose being to monitor and drive best practice compliance with the Code, examining the practices of banks and identifying problems in the industry are fundamental. And this report contributes to our purpose.

It provides valuable insight into the work of banks during a time of great social and economic challenges. The COVID-19 pandemic featured prominently, and its economic ramifications were felt across society. This, inevitably, put the spotlight on banks and the actions they took to assist consumers through the challenging and unprecedented period.

While there are elements of good practice on display, the report highlights plenty of room for improvement. We expect that banks will take the learnings that this report provides and improve their processes and practices to comply with obligations and, ultimately, ensure fair outcomes for consumers.

As a Committee, we hope the report offers readers a view of banks' operations not seen before and offers banks an opportunity to learn and improve processes which will lead to better practices.

Ian Govey AM
Chair of the Banking Code Compliance Committee

Financial difficulty and debt collection

Snapshot of findings

834,494 requests for financial difficulty assistance

86% of requests received by the 4 major banks – 717,700 in total

7% decrease from requests in 2019-20

COVID-19 cited as the most common reason for requests

67% of all requests for financial difficulty assistance were approved

Most common reasons for not providing financial difficulty assistance:

1. Customers not providing documents
2. Banks unable to contact customers

Key observations

Record-keeping

The COVID-19 pandemic was cited as the most common reason to request financial difficulty assistance in 2020-21.

However, there were thousands of requests for which banks were unable to provide a reason.

Capturing the reason that a customer requests financial difficulty assistance is a crucial element in the process. This information can provide insight into a customer's financial situation and help a bank deliver a tailored and sustainable solution.

Not understanding the reason for a request can lead a bank to propose a solution that does not address the root of a customer's problem and may result in further assistance in future and greater costs to the bank and the customer.

Despite the disruption of emerging issues, a bank's processes should allow it to maintain high standards, including with its record-keeping. All banks, regardless of size, must make sure they have the right processes, procedures and resources to be able to properly track and manage requests.

Good foundational processes and procedures can allow a bank to keep comprehensive records when dealing with shifts in focus to deal with emerging issues. Ultimately, this will help ensure the bank is delivering the right solutions and outcomes for its customers.

A simple process

The most common reason a bank did not provide financial difficulty assistance was that the customer did not provide the right documents, or the bank could not contact the customer when processing the request.

While in some cases this may be because the customer chose to not proceed with the request, it can indicate complexity in the process that customers find difficult to navigate.

A complex system can delay processes and make an optimal outcome harder to achieve. This costs a bank and the customer extra time and money. It can also discourage a customer from approaching their bank for assistance.

The process through which a customer can request financial difficulty assistance should be simple and accessible, and the requirements for a request should be clear and reasonable. A bank should also make sure that each customer is fully aware of how their information will be used and any consequences a financial difficulty request may have for their access to credit in the future.

When processing a request, a bank should exhaust all available options to contact a customer before closing the request. This step is made easier by ensuring customers know the importance of providing multiple ways of contact and are aware of the option to authorise someone to act on their behalf if necessary.

A delay in the process for administrative reasons can exacerbate a customer's financial hardship and, potentially, lead to longer-term vulnerability. It is vital that a bank's processes are not the reason a customer decides to forego a request for financial assistance.

What is financial difficulty?

Financial difficulty is a circumstance in which people are unable to meet, or are experiencing difficulty meeting, their repayment obligations on loans they received (paragraph 157 of the Code).

There are many causes of financial difficulty, and a customer can fall into financial difficulty due to factors beyond their control. These factors include loss of employment, illness, family breakdown, family violence, death or injury, and the ongoing impacts of the COVID-19 pandemic.

An irresponsible lending decision by a bank – one that does not adhere to the requirements of paragraphs 49 and 50 – can also lead to a customer not being able to make repayments on their loans.

Consumer credit customers are entitled by law to request financial difficulty assistance, also known as a 'hardship variation' (for credit contracts regulated under the National Credit Code).

Banks do not have an obligation to grant requests for financial difficulty assistance. However, through the Code, banks are committed to work with their customers to help find sustainable solutions to financial difficulties. Banks can provide financial difficulty assistance in a variety of ways, depending on a customer's individual circumstances.

Common types of financial difficulty assistance

- Loan term extension to reduce loan repayments to a more affordable level.
- Providing a limited pause in loan repayments.
- Fixing the loan or changing to Interest-only repayments for a specified period of time
- Cancelling or suspending default fees or debt collection fees.
- Reducing or waiving debt for unsecured loans.
- Capitalisation of arrears.
- Changing the terms of the loan or agreeing on an alternative arrangement or plan.
- Granting reasonable time to sell a debt-secured asset to make repayments on the loan.

If a consumer feels their bank's decision to deny assistance is unfair, they can contact the Australian Financial Complaints Authority (AFCA) and ask for help in finding a solution with the bank.

The size of the issue

The restrictions in response to the pandemic in the final quarter of 2019-20 triggered a sharp increase in requests for financial difficulty assistance. A full 35% of requests in that financial year, a total of 292,000, were made in April 2020 alone.

The number of requests fell slightly in 2020-21, with banks reporting 834,494 requests for financial assistance. Despite the fall of 7%, there remained a large volume.

The four major banks received 86% of the requests in 2020-21 – a total of 717,700. One of the four major banks reported receiving 258,700 requests – 31% of all requests.

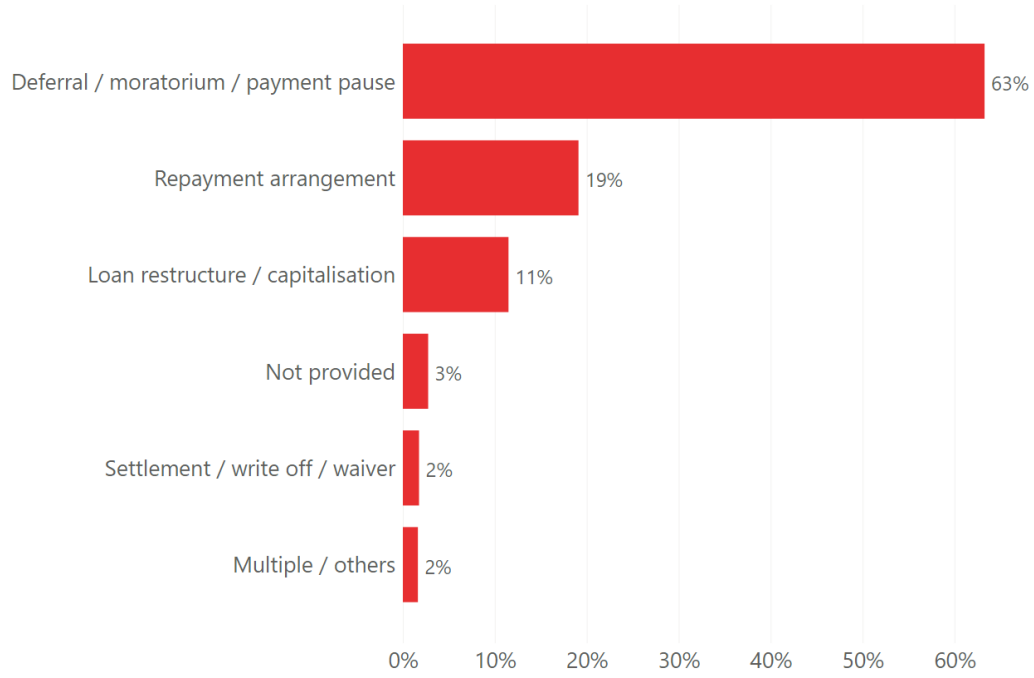
At the other end of the scale, three smaller banks reported receiving fewer than 100 requests each for assistance in 2020-21.

More than 75% of all financial difficulty requests were received from NSW, Victoria and Queensland. This is proportionate to their percentage of Australia's total population.

Requests from small business customers remained stable in 2020-21, with just over 78,000 requests a minor drop from the 79,000 in 2019-20. More than 82% of these requests came from small business customers residing in the three largest states.

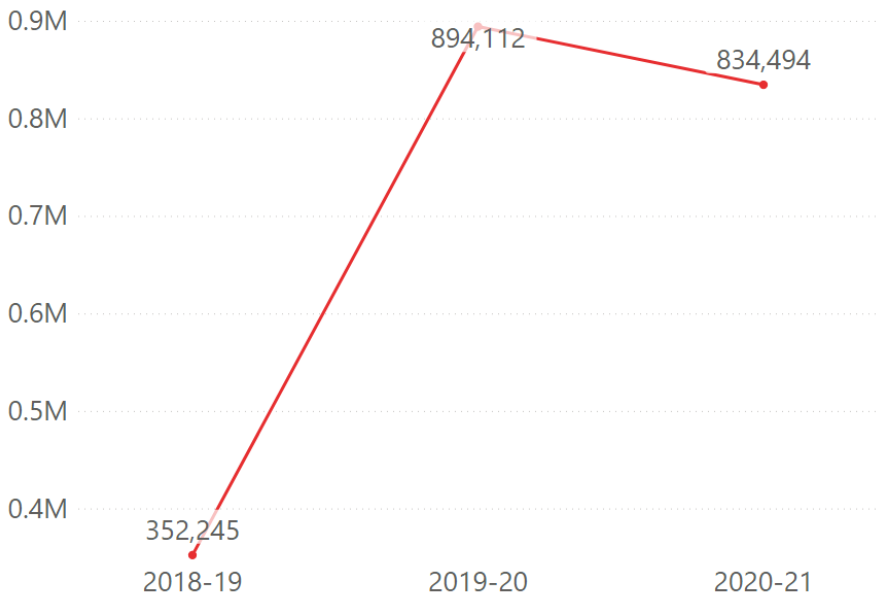
Loan repayment deferral or moratoria (suspension of legal obligation) were the most common types of financial difficulty assistance banks provided. For major banks, these accounted for 85% of the total assistance they provided.

Figure 1: Types of financial difficulty assistance provided by all banks to individual and small business customers in 2020-21



Interest or fee waivers, and debt waivers, including settlements, were only offered as assistance in less than 2% of the total requests, similar to the previous two reporting periods. We are unable to comment on the adequacy of the assistance that banks provided.

Figure 2: Requests received for financial difficulty assistance from individual and small business customers, 2018-19 to 2020-21



Note: Data for 2018-19 includes only the 13 subscribers to the 2013 Bank Code.

Reasons for requests

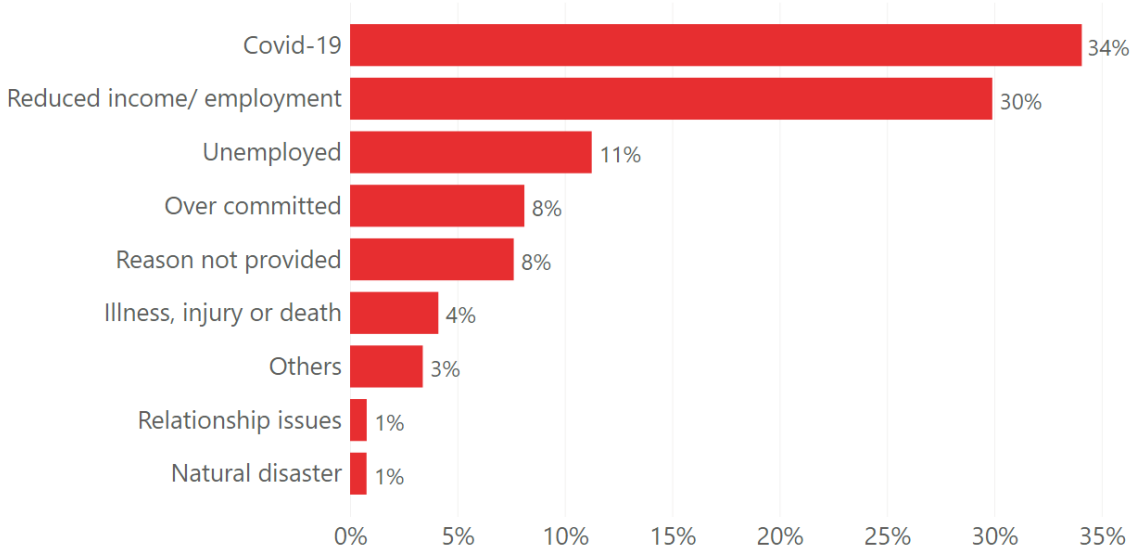
In cases where banks provided the information, COVID-19 was cited as the most common reason for requests in 2020-21. This was followed by reduced income and unemployment.

These reasons may also be linked. In many cases, the reduced income or unemployment cited by a customer may have been due to COVID-19 and its effects.

In fact, one major bank reported that of the requests for which COVID-19 was cited as the reason, 96% were due to the reduced income or unemployment that came as a result.

Most COVID-19 financial support schemes from government and industry have ended and the financial ramifications of COVID-19 for individuals and small businesses are likely to linger for some time. It is important that banks recognise this and have the right processes in place to address the issues for an extended period.

Figure 3: Reasons individual and small business customers cited for requesting financial difficulty assistance in 2020-21

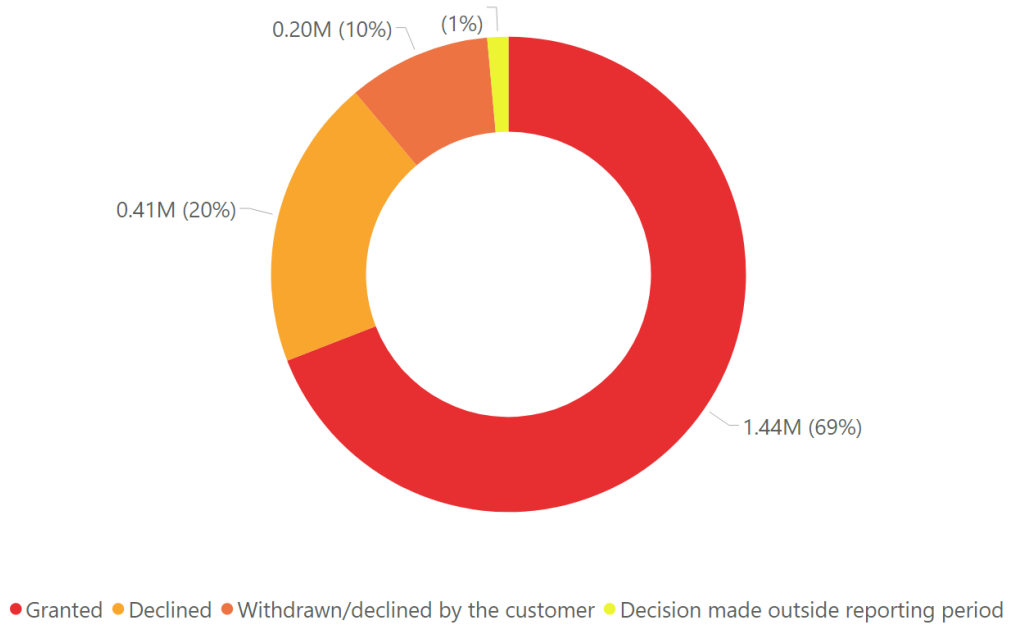


Request approval rates

In 2020-21, 67% of requests for financial difficulty assistance were approved – a total of 560,633.

Specifically for requests based on reduced income and unemployment factors, the approval rate was 79%. This includes consumers who were overcommitted.

Figure 4: Outcomes of requests for financial difficulty for individual and small business customers in 2020-21



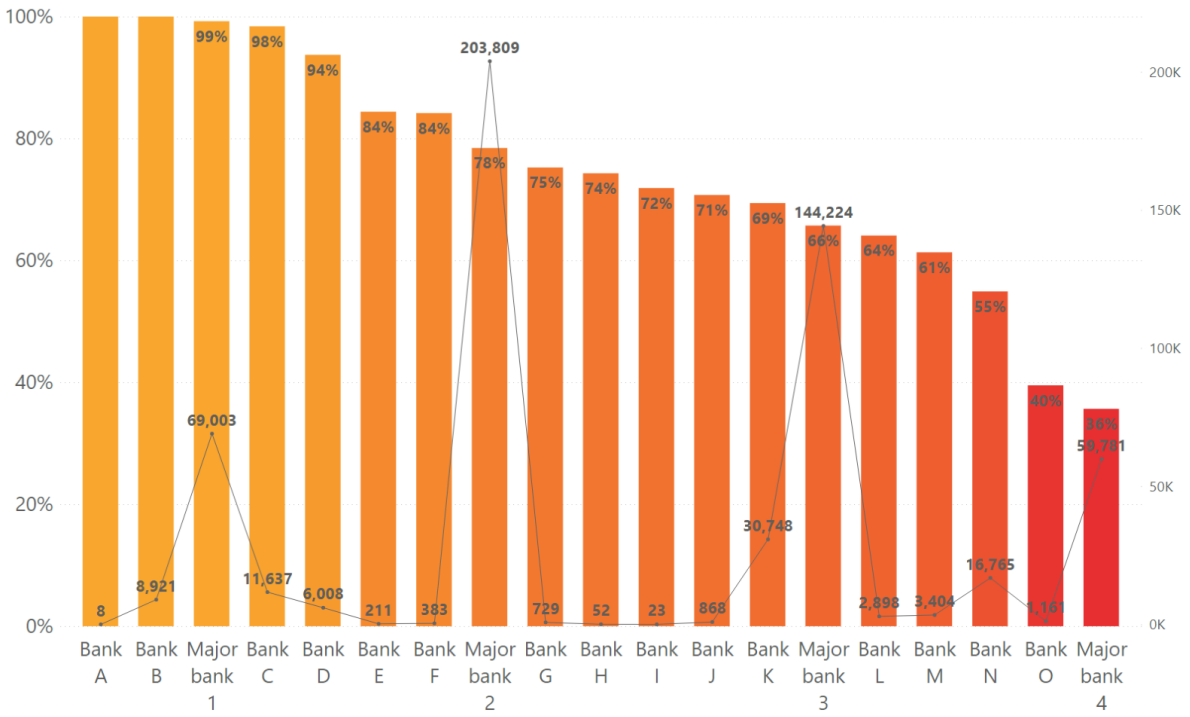
The approval rate of 36% at Major Bank 4 was significantly lower than the banking industry average, as well as the other major banks.

This is likely influenced by 26% of the requests being withdrawn. Of these withdrawn requests, the bank reported that 95% were withdrawn or declined by the customers themselves. However, it is unclear whether the customers no longer needed assistance or declined the assistance offered by the bank.

By contrast, Major Bank 1 reported approving 99% of the 69,535 requests for financial difficulty assistance in 2020-21.

We expect all banks to have appropriate processes and procedures to be able to adequately deal with requests. Although 2020-21 brought challenges, Major Bank 4's results suggest that its processes failed to address customer needs adequately. A relatively low approval rate coupled with a high percentage of customers withdrawing requests indicates that Major Bank 4's processes could have presented clearer information to customers about requirements and options. A bank must be clear on how it can assist, what it requires from a customer and the alternative options available to a customer.

Figure 5: Percentage of requests for financial difficulty granted to individual and small business customers in 2020-21



Note: The requests that Bank B granted includes COVID-19 deferral payments from the preceding reporting period that were classified internally as hardship.

Banks were unable to identify or report a reason in 10% of cases.

One major bank was unable to provide reasons for 23% of its requests and one small bank advised that it did not collect information on the reason a customer requests financial difficulty assistance.

The relatively large number of requests with a reason unaccounted for is concerning.

It is crucial that banks properly capture and record the reasons for a request for financial difficulty assistance. Doing so can help a bank to provide a more appropriate and sustainable solution for a customer, resulting in good outcomes that avoid the financially detrimental cycle of repeated requests for assistance.

At the aggregate level, it can provide valuable insights into emerging issues and trends and help a bank better understand its risks, especially its financial costs. And such information should be an essential element in a thorough record-keeping process that underpins requests for financial difficulty assistance.

Assistance to small business customers

The approval rate for requests from small business customers was 68%, approximately 53,000. (One smaller bank does not segregate data for financial difficulty assistance requests from small business customers; instead, it includes them in the total number of requests it receives.)

For major banks, the approval rate for small business customers was 72% of a total of 68,000 applications. Two of the four major banks approved fewer than 40% financial difficulty requests.

Smaller banks approved 44% of financial difficulty requests from small business customers, approximately 4,300 out of 9,800 applications.

Banks declined to approve 20% of financial difficulty requests from small business customers, approximately 15,200 applications. This is a higher percentage than the overall non-approval rate of 18% for requests from individual customers.

Reasons for not providing assistance

Banks reported that the primary reasons for not providing financial difficulty assistance were:

- customers not providing documents or providing insufficient information, and
- banks unable to contact customers who lodged requests.

These reasons accounted for 36% of the requests that did not result in financial assistance. One smaller bank cited these reasons for 83% of the assistance requests that were declined or withdrawn.

Banks did not provide assistance to more than 49,000 requests in 2020-21. This is because the requests were withdrawn by the customer, or the bank was otherwise notified that the customer no longer needed the assistance.

Banks should check that the process for requesting financial difficulty assistance is clear and customers are aware of all the requirements. Customers need to be able to read and understand instructions easily and know the options they have available to them. The required information should not be unnecessarily burdensome for the customer and the timeframes for providing information should be achievable in the circumstances.

Banks must confirm that customers know who to contact when having difficulty with the process and should make it clear to customers that they may be able to authorise someone to speak to the bank on their behalf.

It is also important that banks ensure the contact details for customers are correct. And when attempting to contact a customer, banks should exhaust all options – it is not enough to make a single, cursory effort at contact before closing a request.

A simple process, combined with proper efforts on the part of the bank to contact a customer, will lead to better outcomes. It will ensure that customers are not discouraged from approaching their banks and risking further financial difficulty, and potentially long-term vulnerability.

Proactively contacting customers experiencing financial difficulty

The Code states that banks may contact customers who appear to be having difficulty repaying their loans, or otherwise experiencing financial difficulty (paragraph 165).

Despite the Code permitting a bank to make such contact, it appears there is often little effort to do so or to maintain records.

This leaves it to the customers themselves to recognise their financial hardship and contact their banks in search of assistance. By the time a customer contacts the bank, the situation may have become worse than it might have otherwise been if there was intervention.

In reporting, each bank was asked to provide the number of customers it contacted when it identified the customer may be experiencing financial difficulty.

Two of the smaller banks reported that they did not proactively identify and contact customers experiencing financial difficulty. Five other banks were unable to provide this information. Two of the major banks highlighted the difficulty in identifying and obtaining this information, which, in their view, cannot be traced to a single customer contact point.

It is unclear from other responses whether the customers were identified and contacted by a bank as individuals or were contacted in bulk as part of a bank's internal debt collection processes.

Compliance with the Code

The number of Code breaches concerning financial difficulty decreased by 4% in 2020-21.

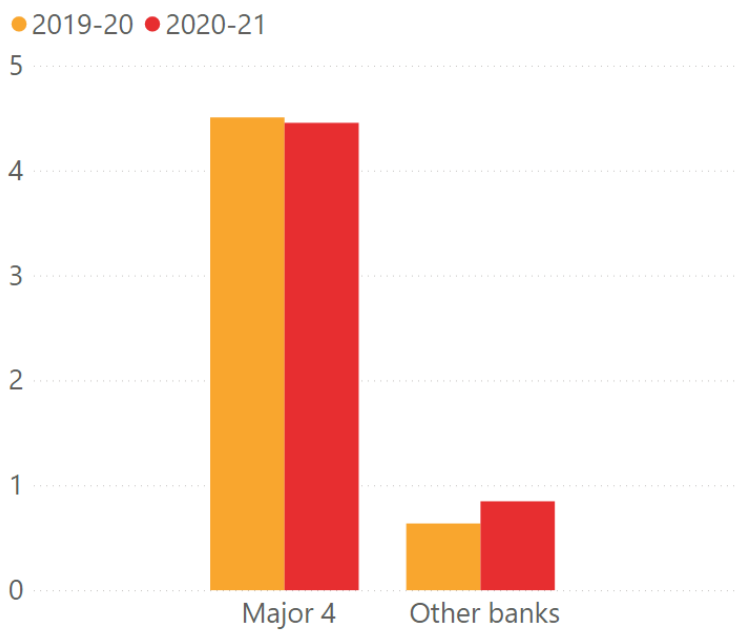
They fell from 3,427 in 2019-20 to 3,292 (Chapters 39-41). This tracks closely with the marginal decrease in requests for financial difficulty assistance.

Small banks registered a small increase in the number of breaches per 1,000 requests. This indicates the need for further analysis and investigation of practices and procedures.

While most banks demonstrated a general high level of compliance with the Code, there remains room for improvement.

Bank should review breaches of their obligations for financial difficulty assistance and work towards improving systems and processes that can prevent breaches in this area.

Figure 6: Breaches of financial difficulty obligations per 1,000 requests for assistance, 2019-20 to 2020-21



Debt collection

The banks listed a total of 47,444 accounts in default with a credit-reporting body in 2020-21.

Of that total, a single major bank reported 30% and a single smaller bank reported 22%.

Eight of the smaller banks did not report a single account in default to a credit-reporting body in 2020-21. And one smaller bank suspended its default listing for

most of the reporting period as part of its COVID-19 support and process refinement activities.

Selling debt to external parties

Three major banks and two smaller banks reported on-selling debt to external parties in 2020-21.

The banks sold 61,344 debt accounts to external parties, with the three major banks accounting for 93%.

Two smaller banks advised that they do not on-sell debt to external parties.

We identified the need for banks to monitor external parties to whom debt is on-sold to ensure compliance with paragraph 182 of the Code.

The Australian Banking Association's (ABA) industry guideline on the sale of unsecured debt includes protections for customers experiencing vulnerability. The ABA asks that banks consider incorporating safeguards in the guideline into their contractual agreements with debt buyers.

The guideline does not permit banks to sell debt arising out of domestic and family violence, and in certain situations where the customer is experiencing ongoing vulnerability.

It is crucial that banks are aware of their obligations when choosing to sell debt to external parties.

Financial difficulty – an example

Brooke is studying and supporting herself with casual hospitality work.

Due to a complex break in her ankle, she has been unable to work, and is two months behind in mortgage payments on her apartment. She also has a personal loan on her car and has missed her last monthly payment.

After applying to Centrelink, Brooke began receiving regular payments, but they are not enough to pay both her mortgage and her car loan repayments.

Brooke approached her bank and requested a limited pause on her home loan repayments. The bank declined her request based on the information she provided.

Being unsatisfied with the reasons the bank gave for declining her request, Brooke went back to the bank to find a solution. However, she remained unsatisfied with the bank's response and was provided with the option of contacting AFCA.

The following day, Brooke called AFCA and explained her situation and the response she got from her bank. She lodged a complaint with AFCA and proposed a pause of six months on her home loan repayments until she could work again.

AFCA contacted the bank and, after requesting and considering additional information from Brooke, the bank accepted her proposal and paused her home loan repayments for six months. The bank also extended the term of her loan for one year to see the accumulated debt repaid.

Responsible lending

Snapshot of findings

1.4m home loan applications – up 12% on 2019-20

93% of credit applications from individual customers

13% decrease in total credit applications in 2020-21

Only 1 major bank sold Consumer Credit Insurance (CCI)

Decline in credit applications, but no corresponding decline in Code breaches

199,000 credit card limits increased

278,000 credit card limits reduced

Key observations

Increase in home buying

Although 2020-21 was characterised by a fall in credit and loan applications in total, there was one category that bucked the trend: home loan applications.

While people seemingly turned away from other forms of credit, home loan applications saw a significant increase of 12% across all banks. And small banks saw a 45% increase in home loan applications from owner-occupiers.

The strong desire for these loans, amid a downturn in other credit applications, may reflect the climate of the 2020-21 period.

It was 12 months largely dominated by the ongoing COVID-19 pandemic and filled with uncertainty. When combined with the sustained low interest rates of the time, government incentives to buy homes, and significant changes to lifestyles and the way people worked, the period saw conditions that were favourable to an increase in home loan applications.

As conditions change, however, banks must maintain high standards and ensure they meet obligations for responsible lending. Banks should be wary to not allow a fall in home loan applications in the short term compromise the prudence and due diligence that underpin good lending practices.

Breaches increased

The fall in total credit and loan applications assessed was not accompanied by a corresponding fall in breaches of the Code in 2020-21.

While banks assessed 13% fewer credit and loan applications, they reported a marginal increase in breaches of responsible lending breaches: up from 5,314 to 5,374. It is unclear which areas of lending saw the most breaches, but the increase highlights the importance of strong processes and procedures that adhere to the obligations in the Code.

With rising interest rates in 2022 and the implications for loan affordability, breaches of obligations for responsible lending can have serious effects for customers. There is a greater risk of financial difficulty, hardship and potentially longer-term vulnerability. It is crucial that banks ensure their processes for assessing applications adhere to the responsible lending requirements. Strengthening this aspect of operations now will help to minimise financial risks to customers as well as the banks themselves.

What is responsible lending?

The responsible lending principles are designed to ensure lenders do not provide loans that are unsuitable for customers. The Code commits banks to exercise the care and skill of a diligent and prudent banker to achieve this.

This includes credit providers taking reasonable steps to assess the financial circumstances of customers applying for loans or credit and to treat them fairly and transparently.

Responsible lending under the Code

Paragraph

49 Requires banks to exercise the care and skill of a diligent and prudent banker when they are considering providing customers with a new loan or an increase in a loan limit.

50 States that a bank will meet this requirement by complying with the law for individual customers.

51 States that when assessing whether a small business customer can repay a loan, a bank will consider the appropriate circumstances reasonably known about the customer's financial position or account conduct.

Credit applications assessed

In 2020-21, banks saw a 13% decrease in the total number of credit and loan applications they assessed compared to 2019-20.

Home loans and credit cards remained the product categories that generated the largest number of applications. Combined, these two categories accounted for 64% of all credit applications assessed during 2020-21, a total of 2.4 million.

Small business credit applications declined significantly in 2020-21. They dropped from 420,540 to 277,608 – a decrease of 31%.

Figure 7: Credit applications assessed from individual and small business customers by product type, 2019-20 to 2020-21

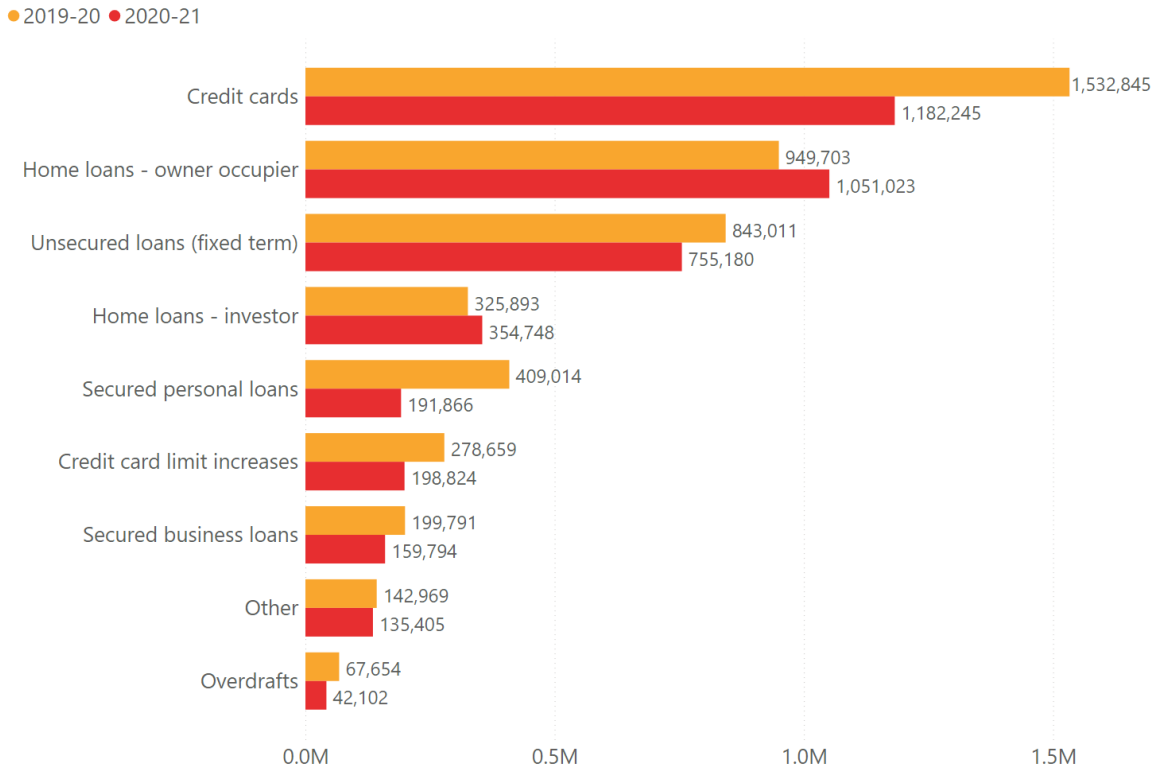
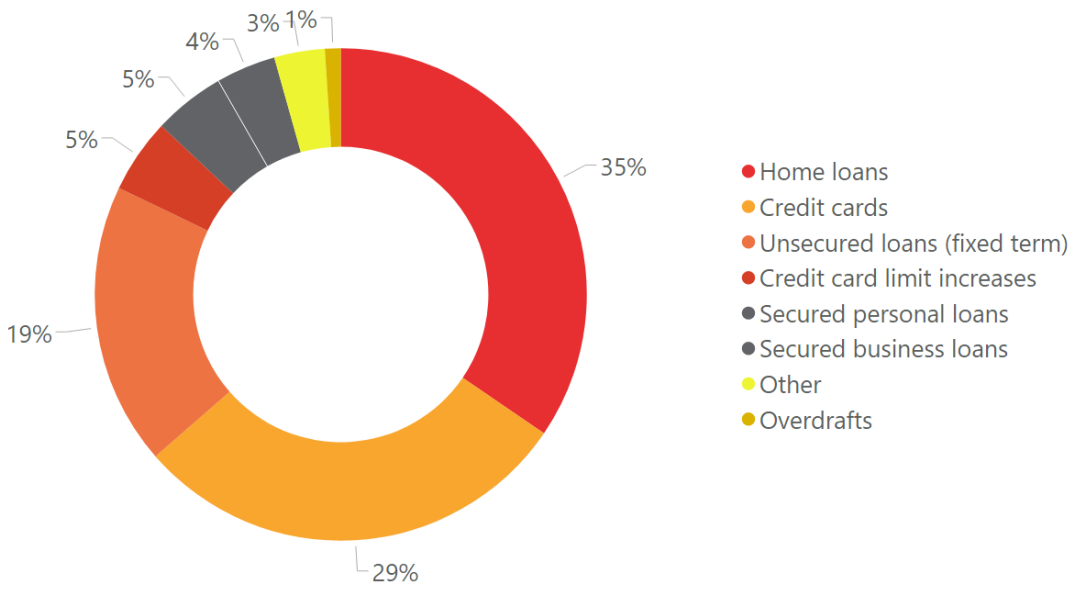


Figure 8: Percentage share of credit applications assessed from individual and small business customers by product type in 2020-21



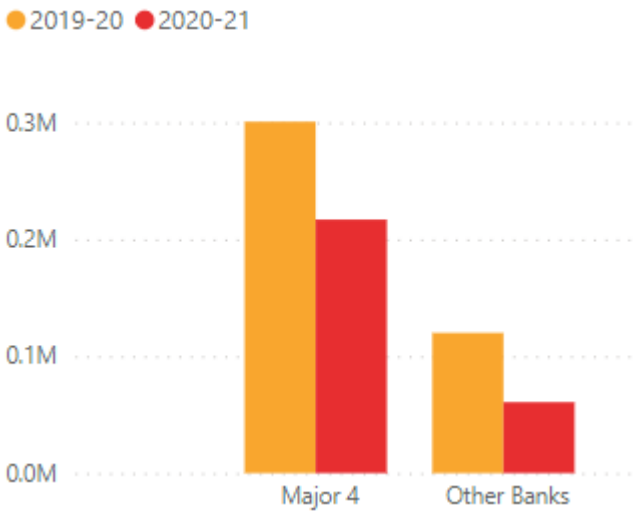
Note: Data from lending products does not include Buy Now Pay Later (BNPL) products.

Lending to small business customers

The total number of small business credit applications received by major and small banks declined over the reporting period.

These applications decreased from just over 420,000 in 2019-20 to 277,000 in 2020-21.

Figure 9: Share of credit applications from small business customers



The four major banks accounted for 80% of all small business credit applications in 2020-21, with the other 20% of small business loan requests being made to smaller banks.

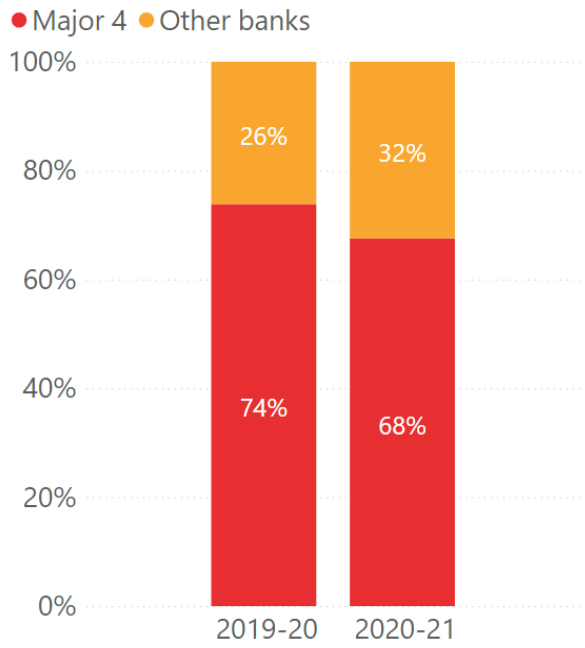
One of the four major banks reported growth of 43% of credit assessed from small business customers. Applications to this bank increased from 45,000 in 2019-21 to 65,000 in 2020-21.

The same bank also accounted for 78 of the 80 small business loans enforced for non-monetary (and money defaults) following external insolvency administrations.

Secured business loan requests accounted for 58% of total applications for credit assessed from small business customers in 2020-21, totalling approximately 160,000. It marks a 16% decline from the previous year.

The 2020-21 period saw radical increases in the total number of secured business loans assessed by two of the smaller banks. One of these banks assessed more than 33,000 secured business loan applications, compared to fewer than 1,000 applications in the previous year. This was an increase of 3,200% in a single year.

Figure 10: Percentage share of secured business loans assessed from small business customers, 2019-20 to 2020-21



Rise in home loan applications

While the total applications for credit and loans declined in 2020-21, there was an increase in home loan applications.

The increase constituted nearly 12% on 2019-20 and included applications from both owner-occupiers and investors. Banks saw over 1.4 million home loan applications in 2020-21.

The four major banks saw an increase of 7% from owner-occupiers. The increase was greater for smaller banks with a 45% rise in applications from owner-occupiers.

Despite the smaller percentage increase, the major banks continued to dominate the owner-occupier home loan market. They assessed 858,325 loan applications compared to 296,171 applications by the smaller banks.

The major banks saw a 13% increase in investor home loan applications assessed between 2019-20 and 2020-21. These assessed applications rose from 263,132 to 296,171.

As the outlier in an otherwise downward trend, the rise in home loan applications may indicate a shift in priorities for consumers. The COVID-19 pandemic and its effects dominated most of 2020-21 and are likely to have contributed to this shift.

The climate of uncertainty – both social and economic – that accompanied the pandemic may have led to more people considering new home purchases. The low interest rates of the time provided incentives for customers, and the changes to lifestyles and working arrangements ushered in by the pandemic may have contributed to a shift in priorities.

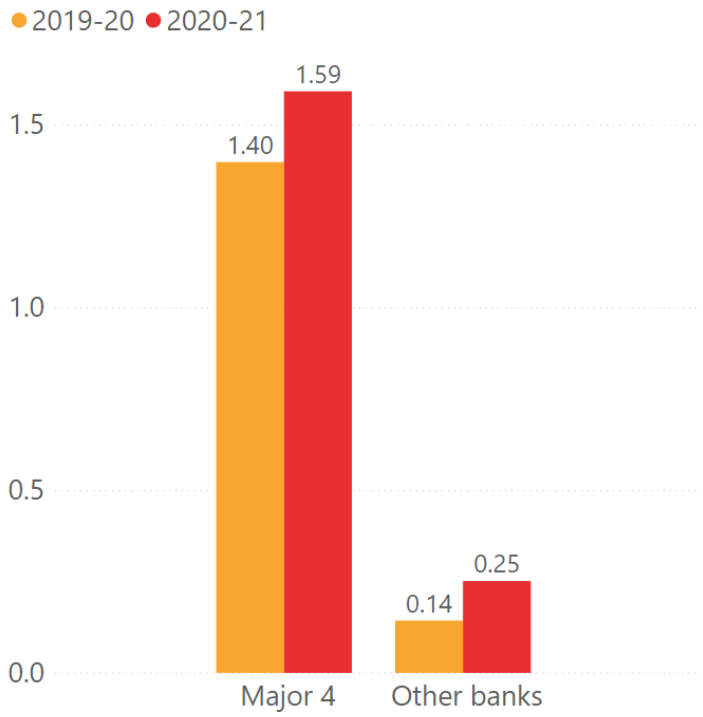
Responsible lending breaches

Despite a fall in total credit and loan applications in 2020-21, the number of breaches of the Code concerning responsible lending increased.

Breaches rose slightly to 5,374, up from 5,314 in 2019-20. These included breaches of Chapter 17 (Part 5) and Chapter 20 (Part 6) of the 2019 Code.

With the decline in applications, banks reported increases in breaches per 1,000 applications.

Figure 11: Breaches of responsible lending obligations per 1,000 credit applications assessed, 2019-20 to 2020-21



Banks must consider their obligations regarding responsible lending carefully.

Combined with an increase in home loan applications, the rise in breaches of obligations for responsible lending may indicate failures in processes or failures to uphold high standards. This emphasises the need to focus on compliance with Code obligations while assessing every home loan application.

The processes and procedures that underpin a bank's commitment to responsible lending must work to maintain high standards and respond to changes in consumer behaviour.

The economic climate, with rising inflation and cost of living, means there are real consequences for customers when a bank does not maintain expected standards of compliance. Breaching obligations for responsible lending can increase the risk of financial difficulty for customers, potentially leading to longer-term vulnerability for some. And this has financial costs for a bank.

Ultimately, this is not a desirable outcome for customers or banks.

Maintaining the standards of behaviour and service set out in the Code will mitigate risks and ensure the bank is working towards good outcomes for customers. Prudence and due diligence are fundamental principles of a bank's obligations for responsible lending, and they need to feature in assessing each application.

Credit card limit changes

Four banks, including three major banks, were unable to differentiate between customer-initiated and bank-initiated credit card limit reduction requests.

The banks could not provide an explanation for the failure to provide information that differentiated the two.

This brings the importance of record-keeping into focus.

A credit limit may be reduced by a customer or a bank for different reasons – usually to increase borrowing capacity or to mitigate the risks of a customer falling into financial difficulty.

The difference between the reasons for a change in limit is meaningful and can provide insights into financial standing of customers and emerging trends among customers. Keeping comprehensive records allows a bank to understand its customer base and the risks with its business. It is a crucial element of good practice.

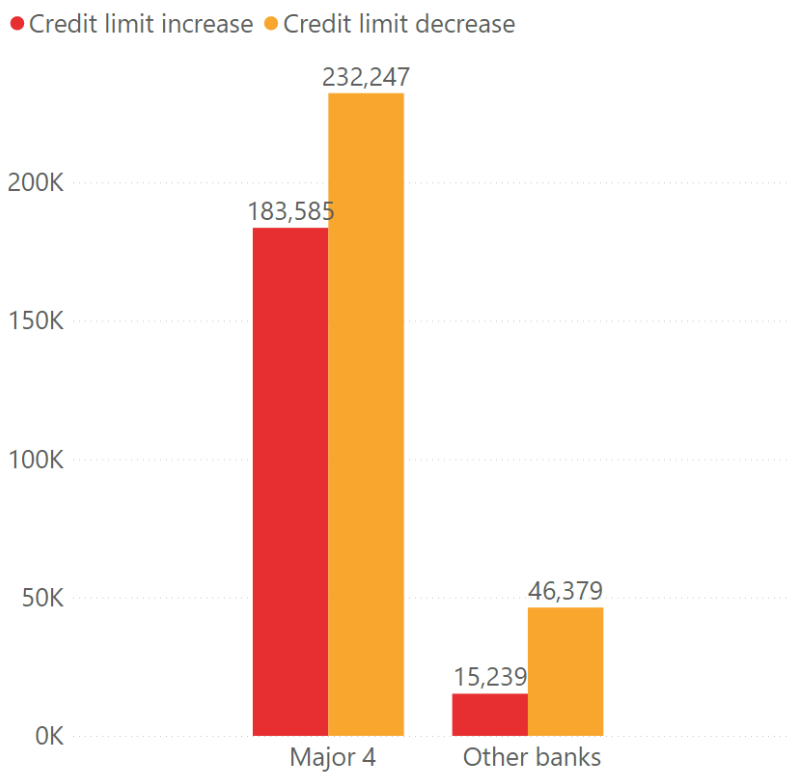
Banks should review their processes to ensure they are keeping comprehensive records of the changes they make to customers' credit accounts.

More than 278,000 credit cards had their limits decreased in 2020-21. A single major bank was responsible for 38% of reductions, a total of 106,600.

The same major bank was responsible for 114,000 increases on credit card limits in 2020-21 – 58% of the total.

Four banks did not offer credit card products, and the credit card facilities for two banks were offered through a 'white label' arrangement with another smaller bank. (A 'white label' product is typically one supplied by one entity – the 'white labeller' – then branded and offered to consumers by another entity – the brand owner.)

Figure 12: Comparison of credit card limit increases and decreases completed in 2020-21



Responsible lending – an example

Jarrod, aged 22, applied for his first credit card when he got a new job as a part-time sales assistant. His partner Alice had her own credit card, and they shared the rent and bills on their terrace house in Melbourne.

Things were going well for the first few months. Jarrod used his credit card regularly and kept up his monthly repayments. But things changed when Alice ended their relationship and moved out. It took Jarrod five weeks to find another tenant. He also needed to replace the washing machine, dryer, television and desktop computer that belonged to Alice.

With all of his savings gone on rent, Jarrod applied to the bank to raise his credit card limit from $4,000 to $20,000. The bank agreed, without any questions, and Jarrod purchased the items he needed to replace, as well as a new laptop.

Two weeks later, Jarrod's hours were cut down at work. He owed $20,000 on his credit card and couldn't afford his monthly repayments. He contacted his bank and explained that he was in financial difficulty. The bank declined his request for a new repayment arrangement.

Jarrod made an appointment for a face-to-face meeting with the bank. He told them that they should have questioned his request for a $15,000 increase in his credit limit and explained that he hadn't been asked about his salary or job. When he first applied for a credit card Jarrod was earning $22,000 per annum.

The bank reviewed Jarrod's case and agreed they should not have given him the credit limit increase he'd requested. It created a new repayment plan to accommodate Jarrod's financial hardship, and provided appropriate remedies as required under its responsible lending obligations.

Complaints handling

Snapshot of findings

Resolved complaints totalled more than **2 million**

24% increase in resolved complaints

90% of complaints handled within 5 working days

1.8 million complaints resolved at the first point of contact

57% increase in credit card complaints

14 of 19 banks resolved more complaints than in 2019-20

Key observations

Maintaining high standards

Despite being faced with the challenge of an increase in complaints, banks were able to maintain a three-year trend of high standards and resolve nearly all complaints within five business days.

The result of 2020-21 follows similar results in the previous two reporting periods and establishes an important high bar of timeliness.

New requirements from the Australian Securities and Investments Commission (ASIC) in Regulatory Guide (RG) 271 broadened the definition of complaints and added more stringent requirements to how banks record complaints. In preparation for this, banks spent time in 2020-21 enhancing their systems for managing complaints, which is likely the main contributor to the rise in recorded complaints for the year.

The timeliness with which banks resolved complaints is testament to the systems in place for addressing customer concerns, including staff training and development. For banks to be able to resolve a large volume of complaints, it is vital that their processes are consistent, well-tested and efficient. But resolution also requires processes that promote fairness and lead to outcomes that a customer deems satisfactory.

Banks should continue to enhance their systems to meet the new requirements and regularly review their effectiveness to ensure they remain fit for purpose and continue to deliver high standards.

Reporting consistency

There remains inconsistency in the way banks treat complaints from customers. A consistent approach to classifying, recording and reporting complaints information would provide greater insights into complaints and allow banks to improve in response.

Part of this is good record-keeping that captures as much essential information as possible, in a way that is useful for the bank. And collecting this information begins with effective systems for customers to make complaints. Banks should examine their complaints data regularly and identify ways to improve the information they collect and improve how they report it.

About the complaints

ASIC Regulatory Guide (RG) 165, which covers internal dispute resolution and was in force during 2020-21, encouraged but generally did not require banks to capture and record complaints that were resolved to the customer's complete satisfaction within five business days. Paragraph 196 of the Code commits banks to complying with ASIC guidelines.

As we noted in both the Compliance with the Code of Banking Practice 2018-19 and Compliance with the Banking Code of Practice, January-June 2020, there is a lack of uniformity in the way banks treat customer complaints. Certain banks classify any expression of customer dissatisfaction as a complaint, while others do not.

We expect that new complaint-handling requirements imposed by ASIC's RG 271, in force since October 2021, will improve the uniformity of complaints data. This will provide greater insight into the nature of customer complaints and the resolutions offered across the industry.

Reviewing complaints data can help a bank identify issues it needs to address. Systemic issues can reveal themselves in complaints and having a good process for capturing and reviewing the data is an important element of risk management.

ASIC Regulatory Guide 271.15

ASIC encourages all financial firms to cultivate an organisational culture that welcomes feedback and values complaints. A positive complaint management culture can produce beneficial outcomes for both consumers and firms, including:

a the opportunity to resolve complaints quickly and directly

b the promotion of trusted relationships between partners

c improved levels of consumer confidence and satisfaction

d greater understanding of the key drivers of complaints

e the ability to identify emerging issues and inform product and service delivery improvements

f reduced AFCA and future remediation costs

Number of complaints resolved

Over the 2020-21 reporting period, banks resolved 2,013,892 complaints from individuals, small businesses, guarantors and prospective guarantors.

This was an increase of 389,755 complaints on 2019-20.

Overall, 14 banks recorded an increase in the total number of resolved complaints.

Specifically, there was a large increase in the number of complaints about credit cards. Banks reported a 57% spike in 2020-21 – up from 289,564 cases in 2019-20 to 453,573.

Discrepancies emphasise the importance of a consistent approach to recording complaints.

As an example, one smaller bank reported more than 208,000 credit card-related complaints in 2020-21. The same bank recorded 22,000 credit card complaints in 2019-20.

This sharp rise may be explained by the bank having recorded all expressions of customer concern as complaints, even when they were resolved at the first point of customer contact. By contrast, another smaller bank did not report receiving any complaints in 2020-21 period.

Capturing all types of complaints is consistent with the banking sector's commitment to improving customer outcomes. However, it is crucial that a bank has a consistent approach to classifying and recording complaints.

Timeliness of complaint resolution

Despite an increase in the total number of complaints, banks resolved more than 90% within five business days.

This is a result consistent with the previous two reporting periods, which establishes a trend of high standards in this important area of customer service.

Maintaining the trend by resolving such a high percentage of complaints within five business days, particularly in the context of the COVID-19 pandemic, reflects a commitment from banks to resolve customer complaints promptly.

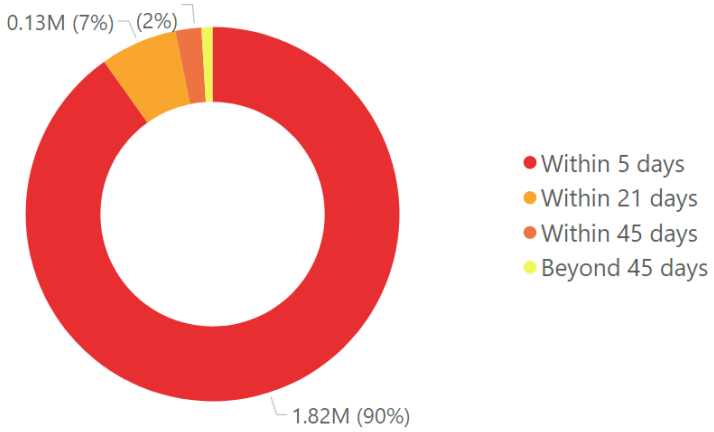
Contributing to the success here may be banks implementing the new internal dispute resolution (IDR) requirements imposed by ASIC RG 271.

The overall timeliness of complaints resolution indicates that banks have appropriate processes and procedures in place to deal effectively with complaints, including staff trained well enough to manage them. The processes are strong enough to cope with increased volumes and not suffer a decline in standards.

There remained, however, significant variation in timeframes for resolving complaints among banks, both major and smaller. This issue was highlighted in BCCC's previous Compliance Reports.

Banks should continue to review their processes, particularly their resolution timeframes, in pursuing improved outcomes for customers. Reporting mechanisms also must capture all the information needed about a complaint and should classify it correctly.

Figure 13: Complaint resolution timeframes for all banks in 2020-21

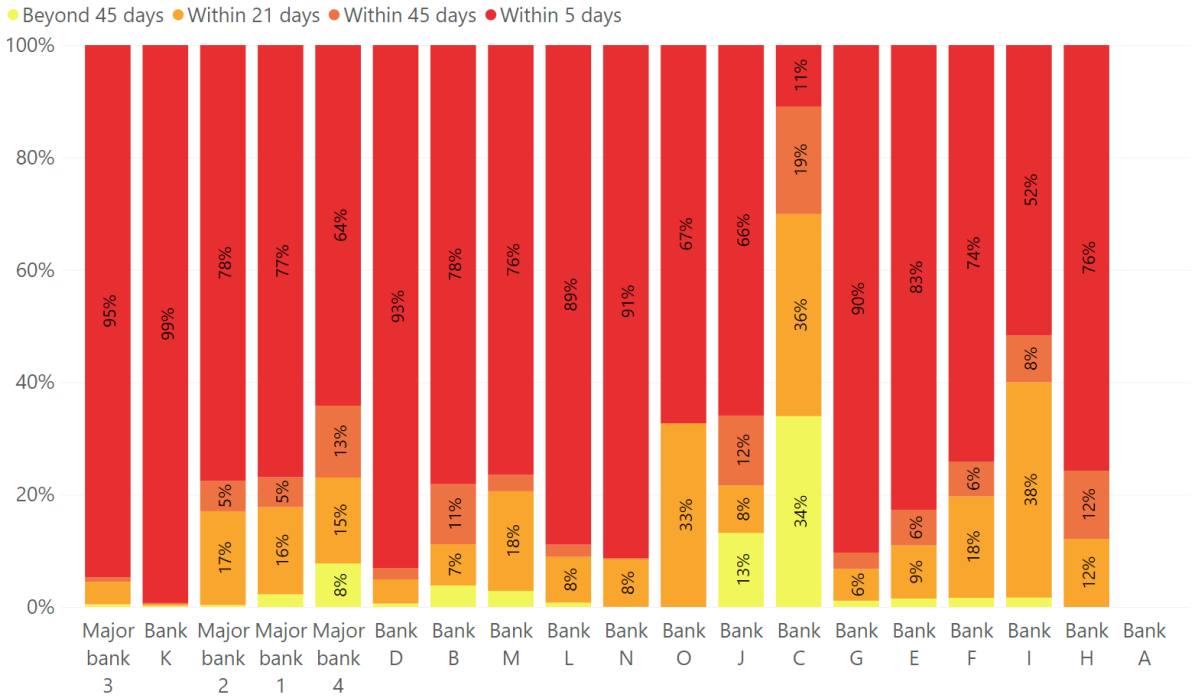


The four major banks reported resolving 89% of total complaints within five business days – almost 1.5 million complaints. Smaller banks resolved 94%, more than 330,000 individual complaints, within five business days.

Banks were also asked to report the number of complaints resolved at the first point of contact with customers, a figure that includes some complaints resolved during that five-business day period.

One major and four smaller banks reported resolving at least 90% of all customer complaints at the first point of contact. For all banks, 78% were reported resolved at the first point of customer contact.

Figure 14: Complaint resolution timeframes by bank in 2020-21



Note: Bank A reported no complaints during 2020-21.

Complaints by type

In 2020-21, service-related complaints accounted for more than 50%, over 1 million in total. Previously, such a high proportion of complaints required a combination of multiple categories. Broadening the definition of the service category to include account administration, processing and technical problems, may be the reason for this increase.

More than 700,000 of these complaints were identified as service issues, but according to details made available by the banks, close to 120,000 were specifically related to the quality of service or staff behaviour. Similarly, more than 79,000 complaints in 2019-20 were related to bank staff or customer service issues.

While the major banks were significant contributors to the number of complaints in the service category, some of the smaller banks reported substantial increases in 2020-21.

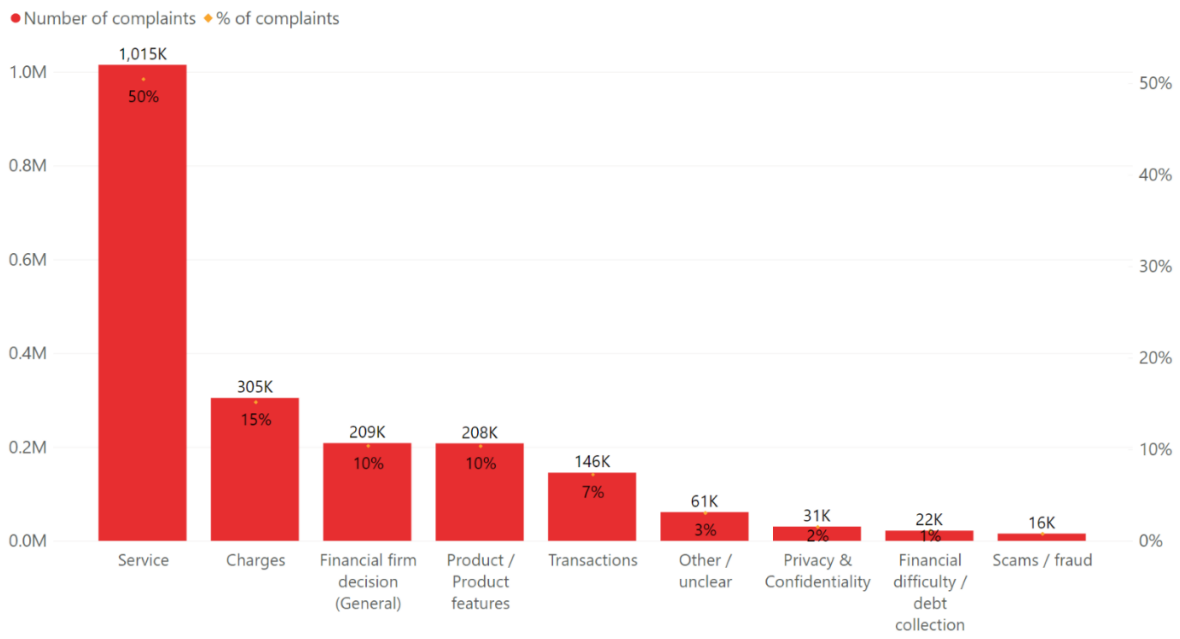
All banks classify service-related issues as complaints. However, it is important to be able to identify the specific issue at the core of a complaint and classify it accordingly. Using broad categories to capture a wide range of complaints can hinder a bank's efforts to understand and prevent problems.

Because the service category includes a broad array of issues, banks should endeavour to monitor service-related complaints thoroughly to identify and address problems that may be causing complaints.

Identifying the problems by analysing complaints data will help a bank find permanent solutions to systemic issues. This can lead to better outcomes for customers and less financial costs to the bank, particularly when banks often have to deal with complaints in addition to the primary issue raised by the customer.

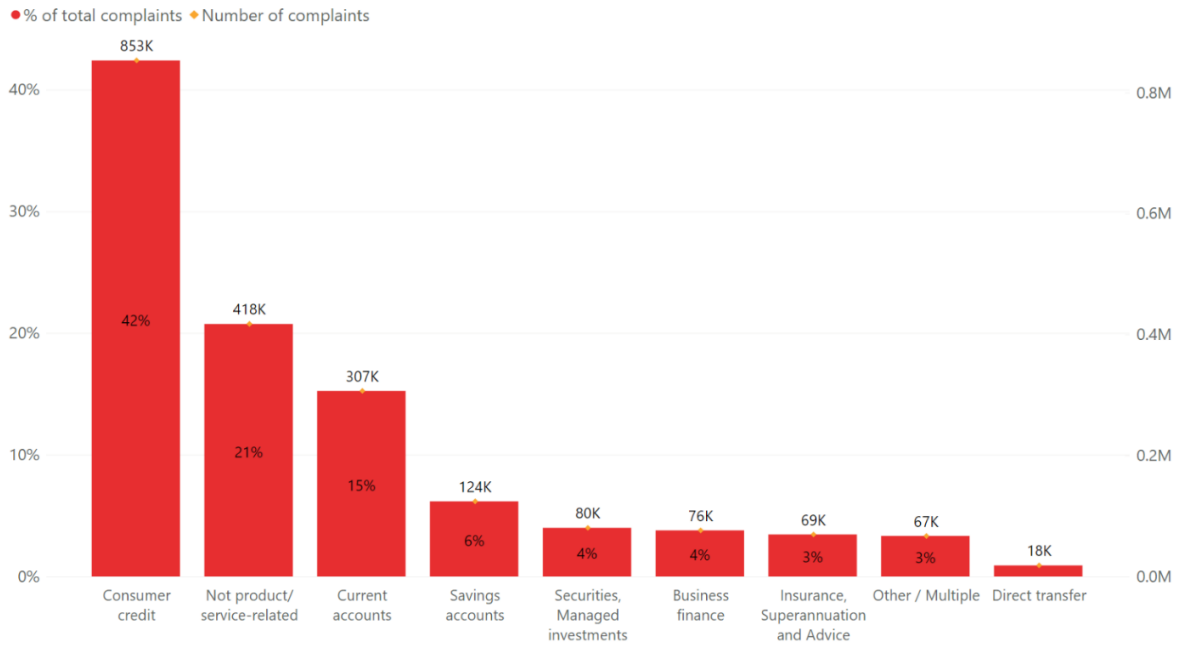
The proportion of complaints categorised as 'not related to a specific product or service' remained constant at 21% in 2020-21. All banks, except two, reported complaints in this category, with the four major banks accounting for 89% of complaints classified as not related to a specific product or service.

Figure 15: Complaints by issue type as a percentage of total complaints resolved in 2020-21



Given the high number of complaints not related to a specific product or service, it is important that banks review the information they collect to try and identify issues that fall outside existing classification criteria.

Figure 16: Complaints by product type as a percentage of total complaints resolved in 2020-21



Complaints from small business customers

Banks reported a small decrease in the number of complaints from small business customers.

Banks resolved 248,139 complaints from small business customers in 2020-21, a 2% decrease from 2019-20. (One small bank does not maintain separate complaints data for small business customers. Instead, they include small business complaints in the overall complaint numbers.)

The major banks were responsible for 97%, approximately 240,000, of these complaints, a figure consistent with the last reporting period. Eight of the smaller banks reported resolving fewer than 25 complaints each from small business customers.

Of these complaints, 91% were resolved within five business days.

The lack of data from one small bank emphasises the necessity of accurate recording from all banks.

Ensuring small businesses are optimally served by their banks is only possible when each bank fully collects, and reports data as requested.

Compliance with internal dispute resolution obligations

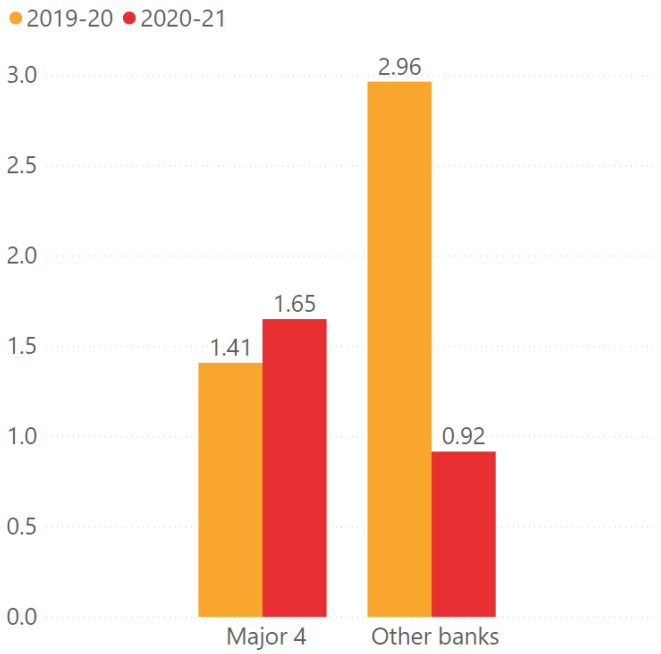
The Banking Code of Practice, at Part 10, imposes a set of obligations on banks to offer effective internal dispute resolution (IDR) options to customers with complaints. Banks reported a 25% increase in breaches of their IDR obligations.

From 2,454 instances in 2019-20, they rose to 3,063 instances in 2020-21. This growth was roughly proportional to the 24% increase in total complaints resolved over that same period.

The number of breaches of IDR obligations across the 2019-20 and 2020-21 reporting periods remained constant. However, for smaller banks, there was a decrease in the number of breaches per 1,000 complaints. This was because one smaller bank reported a substantial increase in complaints in 2020-21 without a proportional increase in breaches.

Banks should review their approaches to IDR and ensure their processes and procedures put them in a good position to comply with the obligations of the Code. With breaches of these obligations still occurring, banks have more room for improvement in resolving disputes.

Figure 17: Breaches of IDR obligations per 1,000 complaints resolved, 2019-20 and 2020-21



Complaints handling – an example

Bank X noted that its IDR process wasn't working optimally.

Despite establishing a strong foundation two years ago, complaints were taking longer than expected to resolve. The bank was also now receiving complaints about the length of time taken to resolve initial complaints.

The bank used ASIC's RG 271 as a guide and examined the different aspects of business procedures that might be contributing to the increase of complaints. First, it noted the size of its business and the number of employees. Then it analysed its products and services, and the number and size of its regular transactions.

Next, the bank looked at the nature and demographic of its customer base. And lastly, it checked its operations, including the IDR process.

When the bank assessed various aspects of its operations and analysed them against the different stages of its IDR process, it came up with some surprising findings.

The bank's customers included a significant number of people whose first language was not English. These customers generally preferred face-to-face interactions with the bank staff, and staff on the ground ensured these customers were getting good service and sound advice.

However, not all channels were offering the same quality of service to this customer group. While the bank had taken care to look after the language needs of this group of customers when they were inside the bank, it had not developed the same approach for this group with its written communications, online services and services over the phone.

Once this was identified as a cause of increasing complaints, the bank said it was able to take appropriate steps to make sure its service was consistent across all channels, which led to an increase in customer satisfaction.

Appendix A

Small business

The Banking Code (Chapter 1) defines a small business as one that:

- has less that $10 million in annual turnover the previous financial year
- has fewer than 100 full-time equivalent employees, and
- has less than $3 million total debt to all credit providers.

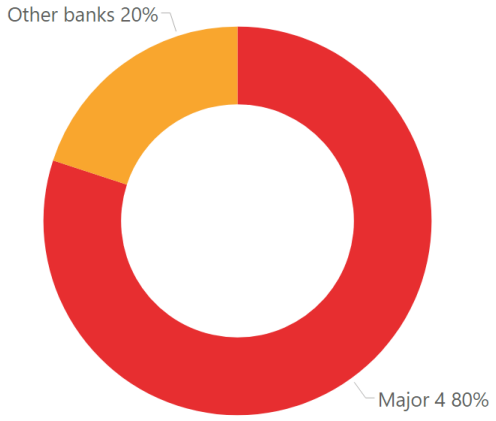
The Code provides key protections for small business customers not found elsewhere under the law.

Banks had more than 3.5 million small business customers in 2020-21. In total, 18 of the 19 banks reported having small business customers.

A major bank reported the largest share of small business customers in 2020-21 with 26%, approximately 900,000 customers. The other three major banks had a combined 1.9 million small business customers.

Of the small business customers held by non-major banks, two combined accounted for 78%, approximately 544,000.

Figure 18: Percentage share of small business customers



The total number of applications for credit from small business customers declined in 2020-21. One major bank reported an increase of 43%.

Banks assessed 160,000 secured business loan applications, which is a drop of 20% from 2019-20.

Banks appointed an external property valuer, investigative accountant or insolvency practitioner for 2,026 small business accounts.

Prior to bank-initiated enforcement proceedings, 22,584 small business accounts were reported to be in default.

Credit card cancellations

Banks were asked to provide the number of credit cards cancelled by the customer by phone or through their online channels.

Six banks, including two major banks, segregated the number of cancellations based on their online channel, as opposed to cancellation requests generally. One smaller bank was not able to provide the number of credit card cancellations of all types during the period. Four banks did not offer credit card products.

According to banks, customers cancelled more than 838,000 credit cards in 2020-21. Customers of major banks accounted for 72% of cancelled credit cards while one smaller bank accounted for 19%, approximately 113,000 cancellations.

In 2020-21, customers of major banks accounted for 72% of cancelled credit cards, a total of approximately 603,000. One smaller bank accounted for 19%, approximately 113,000.

Consumer credit insurance (CCI)

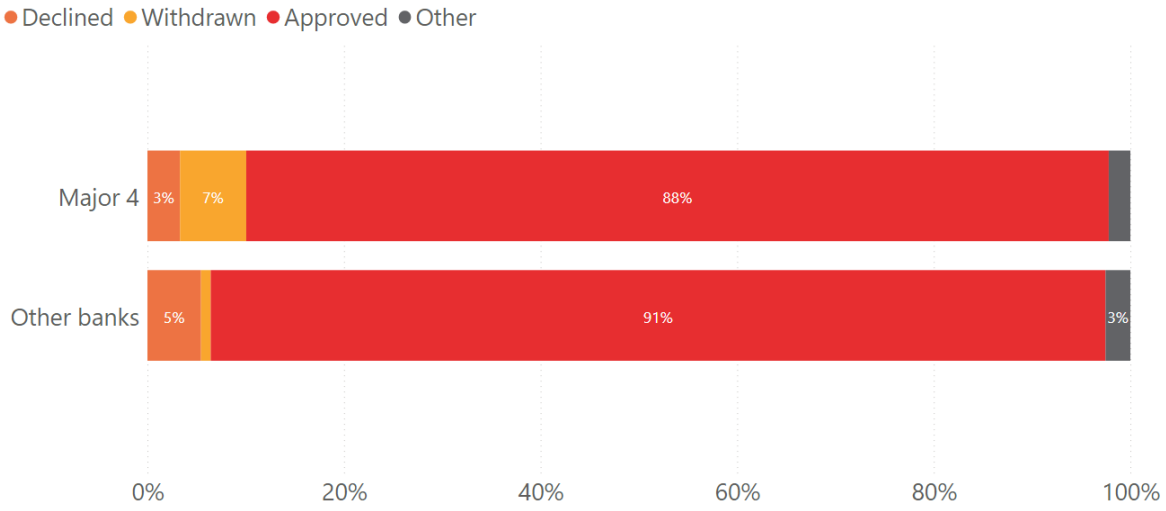
CCI typically provides for continued debt repayments in the event of illness, disability, death or work redundancy.

In 2020-21, only one bank, a major bank, sold new CCI products, although 10,751 claims on pre-existing insurance policies were made. Of those claims, 75% arose from CCI policies linked to a single smaller bank.

Most CCI policies were provided by external insurers and were handled by those insurers.

One of the four major banks did not provide any information on claims for existing CCI products.

Figure 19: Consumer credit insurance claim outcomes in 2020-21



Lenders mortgage insurance (LMI)

Lenders mortgage insurance is a policy that insures the credit provider against the situation that a borrower may become unable to meet repayments and the property is sold for less than the balance of the loan.

Even though LMI insures the loan provider, the cost of the policy will often be passed onto the loan customer.

In 2020-21, mortgage customers were required to pay for LMI policies on 261,333 loan applications. Of the LMI policies, 88% were linked to mortgage applications with the major banks. Two of the major banks, between them, accounted for 75% of all applications requiring payment of LMI.

One of the smaller banks did not require LMI, instead imposing a Low Deposit Fee (LDF) on applications with a Loan-to-Value Ratio higher than 80%. This figure includes the number of LDF applications.

Guarantees

A loan guarantee is a legally binding commitment made by a loan guarantor to take on the debt obligation in the case that the borrower defaults.

A loan guarantee might be required by a lender if there are concerns about the creditworthiness of a borrower.

Our Guarantees Inquiry Report noted the lack of readily available data on banks' enforcement of guarantees. For continuous improvement, recommendation 23 of

the report stresses the need to strengthen data collection to enable banks to analyse guarantee enforcement and the consequences it has for customers.

Major banks accounted for 57% of new credit accounts secured by guarantees in 2020-21, approximately 134,000 accounts. The highest number of new guarantees, 82,000, however were written by a smaller bank

Of the 424 guarantees enforced during 2020-21, the four major banks were responsible for 414.

One of the major banks reported enforcing 362 guarantees, 85% of all guarantees enforced in 2020-21. However, this constituted merely 0.22% of its total credit accounts secured by guarantee.

All other banks also reported enforcement action on less than 1% of their total accounts secured by guarantee.

Direct debits

Collectively, all banks except one reported a total of 244,773 requests to cancel a direct debit arrangement in 2020-21.

Of these total requests, 39% were received by a single major bank.

One smaller bank did not report the number of direct debit cancellation requests it received during the year.

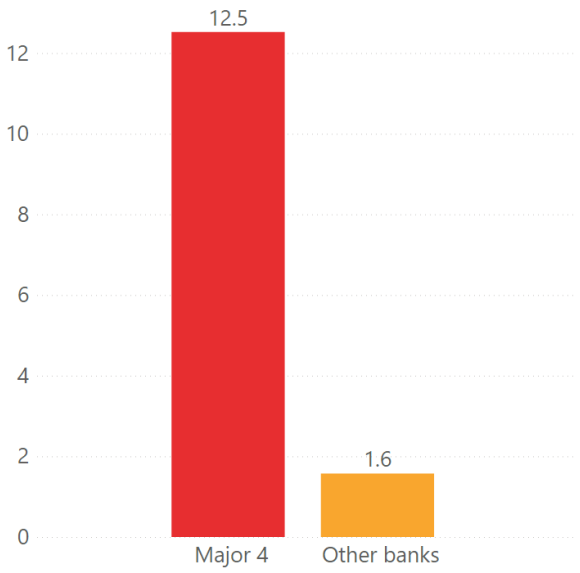
The major banks were the focus of more than 95% of complaints about a failure to act on instructions to cancel a direct debit order, a total of more than 2,100 instances.

By contrast, 13 of the smaller banks reported 10 or fewer complaints, with some reporting no complaints. Of all complaints arising from problems with direct debits, 95% were reported by a single major bank.

Banks reported receiving more than 25,000 complaints related to direct debit problems in 2020-21. A total of 2,282 arose from a failure to cancel a direct debit as requested.

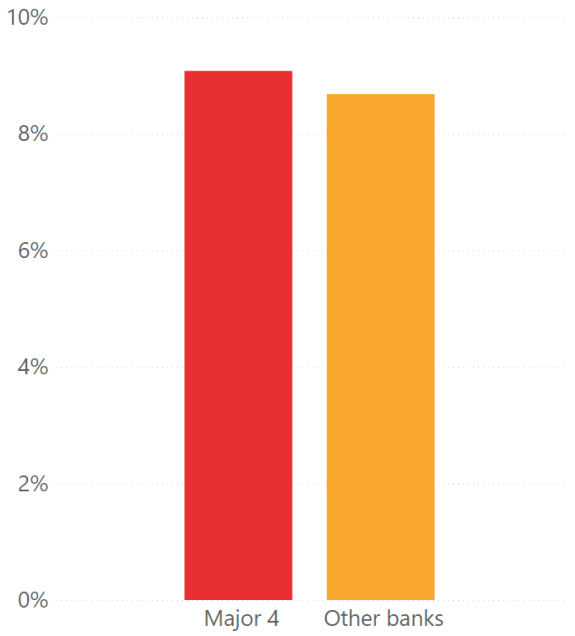
When measured against the total number of direct debit cancellation requests received by the banks in 2020-21, complaints about a bank's failure to act on instruction to cancel a direct debit amounted to fewer than 1%. Despite this low figure, the major banks exceeded the industry average of 9 requests per 1000.

Figure 20: Complaints about the failure to act on instructions to cancel direct debits per 1000 cancellation requests



Our report from September 2021, BCCC compliance update: Cancellation of direct debits report, identified an aggregate compliance rate of 71% for all banks. Three of the major banks, however, reported compliance rates lower than 70%.

Figure 21: Complaints about direct debit cancellation requests as a percentage of all direct debit complaints



Chapter 34 of the Code requires banks to promptly process a customer's request to cancel a direct debit. The bank must not suggest the customer discuss the

cancellation with the merchant first but may mention that the customer can let the merchant or service provider know that the direct debit has been cancelled.

We and our predecessor committee, the Code Compliance Monitoring Committee, have been monitoring banks' direct debit compliance since 2008.

Our research in 2021 found that banks were 71% compliant. This was the highest rate of compliance recorded since monitoring commenced.

Transaction (chequing) accounts

Banks also provided data on the total number of transaction accounts (also called chequing accounts) that were open in 2020-21.

Five of the smaller banks had fewer than 100,000 transaction accounts each, with two of these banks having fewer than 10,000 transaction accounts.

The major banks had 79% of all reported transaction accounts, with other banks holding the remaining 21%.

Banks opened 3,936,304 new transaction accounts in 2020-21.

The major banks opened 73% of all new transaction accounts, with other banks accounting for the remaining 27%.

One major bank accounted for 33% of all new transaction accounts opened. Of more than one million new transaction accounts opened by the smaller banks, three banks combined accounted for 68%, approximately 700,000 new accounts.

Complaints referred to customer advocate

Paragraph 193 of the Code obligates banks to provide customer advocates who will work to ensure fair customer outcomes and reduce the likelihood of similar problems in the future.

A total of 3,215 complaints were referred to bank customer advocates in 2020-21, with the major banks accounting for 78%.

Three of the smaller banks did not refer a single complaint to their customer advocates.

Employees in customer-facing roles

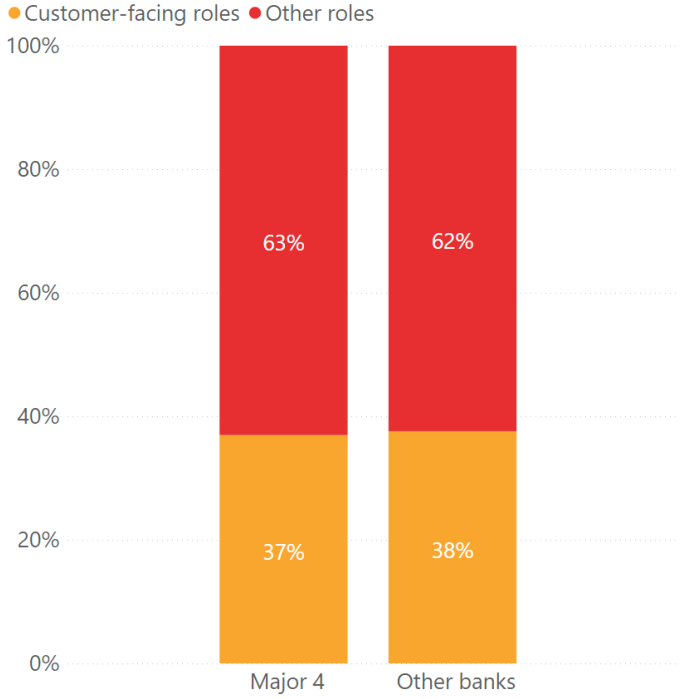
At the end of the 2020-21 reporting period, a single major bank accounted for 30% of the people employed across the 19 subscriber banks. The bank employs over 155,000 staff.

Around 57,000 people, 37% of all full-time equivalent employees in banks, worked in direct customer-facing roles.

While in general the proportion of employees working in customer-facing roles was consistent among major and smaller banks, there were some outliers.

For example, one smaller bank reported having 61% of its 2,300 plus employees in customer-facing roles. For another smaller bank that number was 54%. The highest proportion working in customer-facing roles at a major bank was 41%, 7,600 employees.

Figure 22: Percentage of employees in customer-facing roles in 2020-21



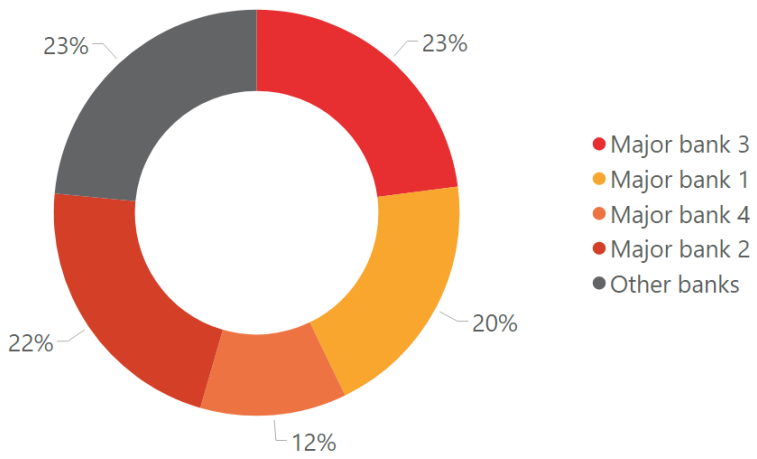
Branches and points of customer interaction

Banks operated a total of 3,814 branches across Australia, with 77% operated by the four major banks.

Three banks maintained no branch presence, with another three having five or fewer branches in capital cities (one maintains wealth management centres for select clients).

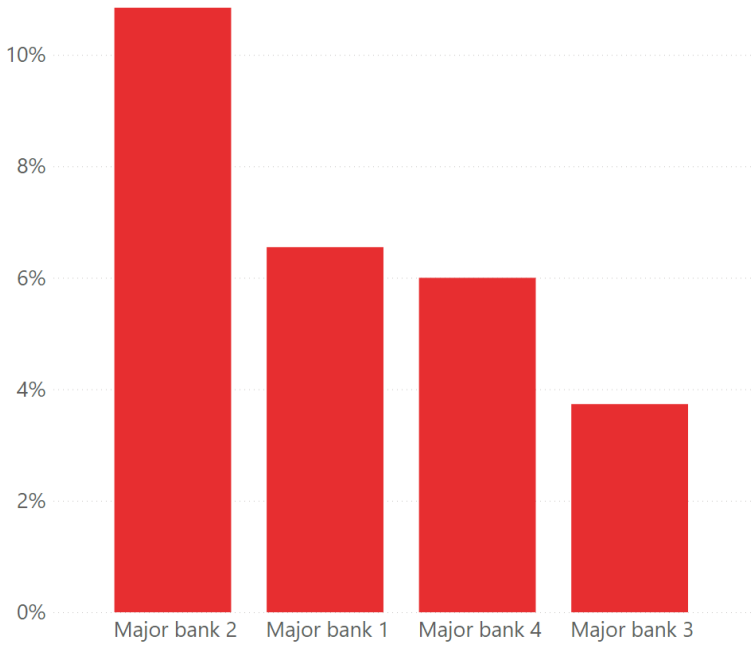
Another major bank's response excluded its business centres and the branches that closed during the COVID-19 lockdowns.

Figure 23: Percentage share of all branches



Banks were asked to provide the average percentage of their customers who contacted physical branches versus communicating through other banking channels. The highest average monthly branch usage across the entire sector was reported by two smaller banks at 21% and 16% of customers respectively.

Figure 24: Average percentage of customers of major banks using branches monthly



Online, mobile and telephone interaction

Two of the smaller banks reported higher average monthly usage than major banks of its online and mobile banking channels. These banks do not maintain any branch presence.

For one of these smaller banks, on average, 56% of its customers used its online banking (via a browser) monthly. Its mobile banking application was used monthly by 50% of its customers. This bank reported discontinuing its telephone banking services in 2020-21 because of its limited use by customers.

The highest average monthly usage of a mobile banking application was also reported by a branchless bank at 60%.

For the major banks, the highest percentage of monthly average usage of both online and mobile banking application channels was 41% and 54%, respectively. These two figures were reported by the same major bank.

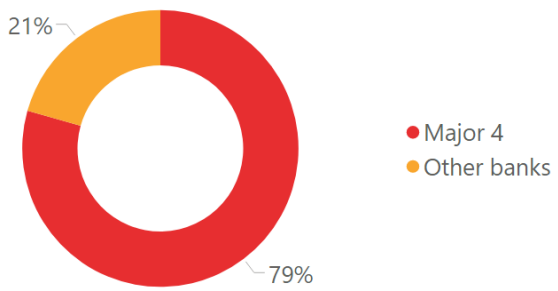
Inclusivity and accessibility

The major banks accounted for almost 80% of customers living in remote communities, including remote Aboriginal and Torres Strait Islander communities. One major bank alone accounted for almost half of the total customers living in remote communities.

One smaller bank counted 9% of its customer base in remote communities, while another smaller bank reported no customers living in remote communities. One smaller bank did not maintain a unique indicator to identify customers living in remote communities.

We recommended banks use data, guidance and reference documents from the Australian Bureau of Statistics (ABS) for classifying 'remote' and 'very remote'.

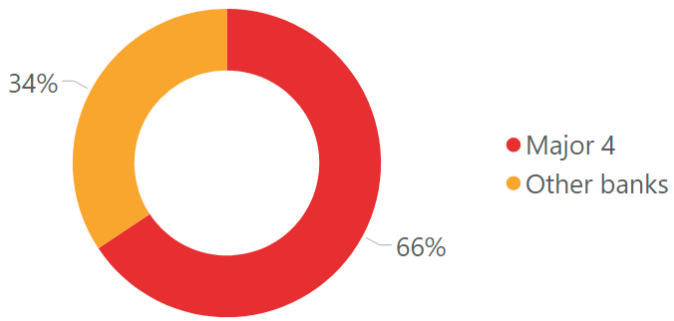
Figure 25: Percentage share of customers living in remote communities



We asked the 19 banks to provide data on the number of customers holding basic low or no-fee bank accounts. A single major bank counted around 4.5 million low or no-fee account holders. This constituted over 50% of such customers across the banking sector.

A smaller bank had over 1.5 million low or no-fee account holders at the end of the 2020-21 reporting period. This figure was higher than the combined number of such accounts held by the other three major banks.

Figure 26: Percentage share of customers with basic, low-fee or no-fee bank accounts



Appendix B: Update on monitoring activities

Monitoring key obligations

We requested that banks provide updates on their compliance monitoring activities regarding five key Code obligations.

This would take into account their previous responses for the 2019-20 reporting period and our feedback.

The five key Code obligations include:

1. Responsible lending
2. Debt recovery
3. Complaints handling
4. Financial difficulty
5. Guarantees

The following table shows the percentage of incidents identified by the banks through the monitoring methods in line with the five key Code obligations.

Identification method	2019-20	2020-21
Line one monitoring/quality assurance/system/call monitoring	38%	40%
Self-identified or reported by staff member	23%	29%
Customer complaint/query/feedback	21%	18%
Line 2/Internal review	8%	9%
Line 3/Internal audit	1%	2%
AFCA	6%	1%
Third party/supplier/external event	2%	<1%
Regulator	1%	<1%

The percentages were extrapolated based on a 5% sample of relevant data. A total of 1,235 incidents were sampled in 2019-20 and 1,400 incidents in 2020-21.

The banks' methods of identifying incidents, and the share of the incidents identified through these methods, remained largely constant across 2019-20 and 2020-21. The only substantive change between the two periods was an increase in incidents self-identified by staff members.

We encourage staff to identify compliance incidents. While no explanation was forthcoming from the banks, the higher proportion of incidents identified through this channel may indicate increased awareness of key Code obligations among staff.

One major bank reported that 53% of its recorded incidents were self-identified. Another major bank found that 95% of all incidents could be linked to financial difficulty Code obligations. This was through proactive methods that included line-one monitoring and staff self-identification.

The highest number of incidents identified through line-one monitoring across all banks related to complaints handling obligations. This rose to 51% of identified incidents, up from 38% reported the previous year.

Ten of the 19 banks, including all major banks, reported undertaking additional reviews, enhancement of their complaints handling framework or an update to their systems. Banks implemented these added measures in preparation for ASIC's new complaints handling regime that came into effect in October 2021.

The banks' approach to monitoring compliance with relevant Code obligations remained largely constant in 2020-21. Responsible lending obligations continued to attract the most comprehensive monitoring and reporting frameworks.

Most banks employ extensive automated monitoring systems that oversee credit decisioning engines, scorecards, dialler systems and IDR case management. In 2019-20, we highlighted certain gaps in the oversight of these automated systems, including ongoing monitoring and testing to ensure they were functioning as designed.

We note that this issue requires further focus by the industry because although some banks acknowledge the use of automated systems, they do not provide details on testing or monitoring.

We also highlighted the need for ongoing monitoring and oversight of debt collection and third-party agents in last year's report. While some banks have provided information, the extent to which others, including a major bank, have undertaken oversight activities in response to our recommendation remains unclear.

By contrast, in 2020-21, we noted several examples of good monitoring practices by the banks.

Major banks

One major bank conducted Own Motion Inquiries into:

- bank-directed account closures due to customer conduct
- support for incarcerated customers, and
- the financial wellbeing of customers and communities.

One bank's financial assistance live chat function is subject to a quality check process to ensure customers obtain appropriate and timely assistance.

Smaller banks

One bank conducts a sample review of mortgage accounts in debt collection to advise affected customers that they have a CCI policy against which they may be able to claim.

One bank conducts an independent review of the broker applications to identify brokers who exhibit poor conduct, including failure to meet best interest duty requirements. This review analyses credit applications based on risk metrics such as arrears volumes, decline and withdrawal rates, and prior fraud investigation referrals.

One bank undertakes specific quality assurance reviews that focus on key Code obligations such as:

- ensuring good customer outcomes
- supporting potentially vulnerable customers (including potential financial abuse), and
- addressing areas of non-compliance in an appropriate and timely way.