



BCCC
Banking Code
Compliance Committee

Follow-up inquiry:
**Guarantee
compliance**

August 2023

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About this report

In 2019, we conducted an inquiry into compliance with the guarantee obligations in the Banking Code of Practice (the Code).

Part 7 of the Code contains obligations to ensure that people can make fully informed decisions before agreeing to be a guarantor. It outlines the information banks must give prospective guarantors and sets out requirements for signing, withdrawing or ending a guarantee. It also includes conditions for banks when they seek to enforce a guarantee.

In August 2021, we published a report that presented the findings of our original inquiry: [Banks' compliance with the Banking Code's guarantee obligations](#) (2021 Guarantees Report).

The 2021 Guarantees Report made 23 recommendations for improved practice regarding obligations for guarantees.

We started a follow-up inquiry in 2022 to examine the progress that the 17 Code-subscribing banks had made in implementing our recommendations and improving practices to meet their guarantee obligations.

This is our report on that follow-up inquiry (2023 Guarantees Follow-Up Report).

Purpose

The purpose of our follow-up inquiry was to:

- Understand how banks had considered and responded to our 2021 Guarantees Report findings and recommendations.
- Assess the improvements banks had made.
- Identify and share examples of good practice.
- Identify areas for further improvement.

What we did

- We asked all Code-subscribing banks to demonstrate how they had considered the 23 recommendations made in the 2021 Guarantees Report.
- We collected and analysed responses from these 17 banks, of which 12 were part of the original inquiry.
- We obtained lending portfolio data from banks to identify trends in guarantee volumes and complaints.
- We collected feedback from the public and from key stakeholders through a survey to understand the experiences of guarantors, and customers relying on guarantors, and how the bank managed this process.
- We analysed self-reported Code breach data from the banks to identify trends in compliance.

Executive summary

Our 2023 Guarantees Follow-Up Report examined the improvements banks had made in response to our 2021 Guarantees Report recommendations.

Banks made significant efforts to implement our recommendations – most had implemented them in full or had plans to do so in 2023.

There were multiple instances of improvements that enhance compliance with the obligations in the Code and work to ensure better outcomes for consumers.

And in some cases, we found banks had adopted practices that exceeded the minimum obligations of the Code and sought higher standards.

Following our 2021 Guarantees Report, we saw banks make meaningful changes: better support for vulnerable guarantors, enhanced training to raise staff awareness of Code standards, and newly introduced or strengthened interviews with prospective guarantors. All are crucial improvements that help banks meet the Code obligations that provide important protections for guarantors.

Our follow-up inquiry also found areas for improvement:

- Some banks had few or no controls in place to ensure the improvements they implemented were achieving the desired results.
- For others, improvements and controls were not implemented consistently across business units or subsidiary brands.
- Several banks did not demonstrate appropriate governance over third parties, such as panel solicitors or brokers, who undertook parts of the guarantee process for the bank.

We also found a lack of progress on three recommendations from our 2021 Guarantees Report:

- Some banks still do not require their staff or brokers to conduct interviews with prospective guarantors to ensure they are fully informed before entering into a guarantee.
- Some banks had not audited their compliance with the Code's guarantee obligations to evaluate their performance against these obligations and identify areas of risk to address.
- Most banks do not utilise guarantee-related data to proactively identify issues and make continuous improvements to their guarantee process.

While banks provided some explanations for not adopting these recommendations, we still consider they should be implemented where possible.

The Code provides crucial protections for guarantors that go above and beyond the law. Adopting these best practice recommendations decreases the risk of non-compliance with the Code's guarantee obligations and drives better outcomes for customers.

Chair's message

Guarantees for loans serve an important purpose, but they also come with serious risk and responsibility for a guarantor.

The guarantee obligations in Part 7 of the Banking Code of Practice are designed to help minimise risk and ensure consumers can make an informed choice about a guaranteed loan. This is especially important as we recognise that becoming a guarantor can pose significant risks, particularly for vulnerable individuals.

Our 2021 Guarantees Report examined industry compliance with these obligations and made a series of recommendations. This follow-up inquiry examined the progress banks had made implementing these recommendations.

I commend the banks for their delivered improvements. Since the original Guarantees Report was published in August 2021, we have witnessed many positive developments as banks diligently worked towards implementing our recommendations.

It was encouraging to see the industry recognise the importance of the issues we raised and take steps to address our concerns.

While banks made commendable progress in implementing our original recommendations, our follow-up inquiry found a lack of governance in place to ensure those improvements are working as intended.

Further work is required to implement three recommendations from our 2021 Guarantees Report: conducting interviews with prospective guarantors, auditing compliance with Code guarantee obligations, and undertaking more proactive data analysis to identify opportunities for continuous improvement.

I urge banks to implement these outstanding recommendations where they have not already done so, and seize the opportunity to further improve practices based on the new recommendations outlined in this 2023 Guarantees Follow-Up Report.

Banks should build on the improvements of the past couple of years and develop their guarantees processes further to ensure the best outcomes for customers.

I thank all the banks that participated in this follow-up inquiry – their cooperation enabled the analysis that will produce the improvements we all desire.

Guarantees are vital for so many people and making sure the process is fair, accountable and transparent is crucial for mitigating risks and harms.



Ian Govey AM

Independent Chairperson

Banking Code Compliance Committee

Introduction

We spoke to the 17 banks that currently subscribe to the Code for this follow-up inquiry. Of these, 12 banks were part of our original inquiry. The remaining five subscribed to the 2019 Code after we had commenced our original Guarantees Inquiry.

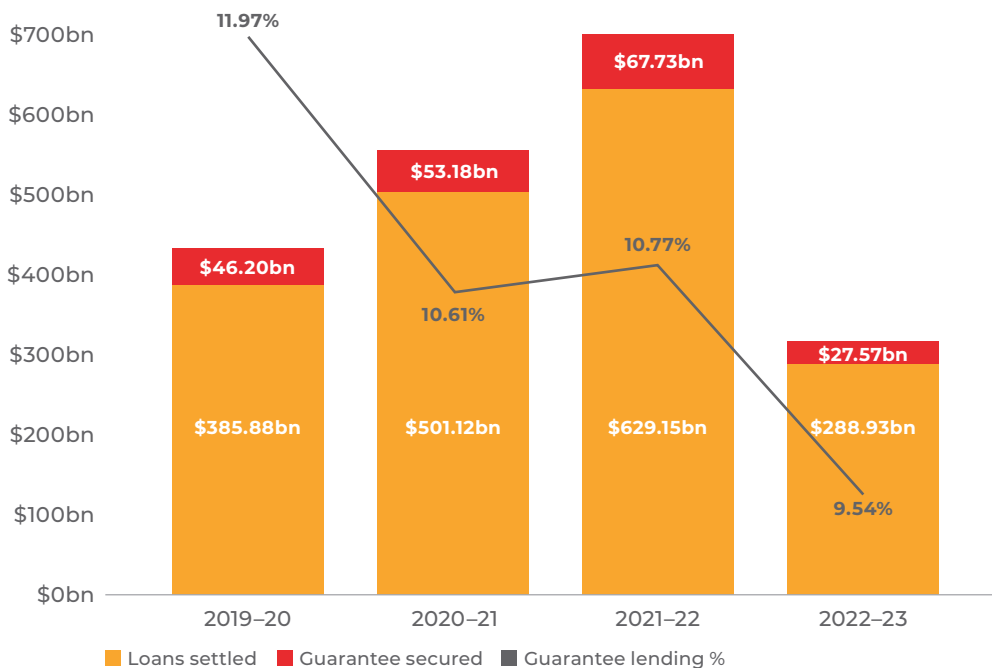
One bank has not offered guaranteed loans since subscribing to the Code. Two other banks discontinued family and personal guarantees in 2018 and 2023 respectively, and now only accept guarantees for business or vehicle lending.

Portfolio data

Banks supplied data showing the dollar value of their retail and small business credit portfolios, as well as the value of guarantee-supported loans.

We compared the value of guaranteed loans against the value of overall lending as a percentage for each financial year between 1 July 2019 and 30 June 2022, as well as the available data for the first half of 2022–23, and saw a slight decline of 2.43%.

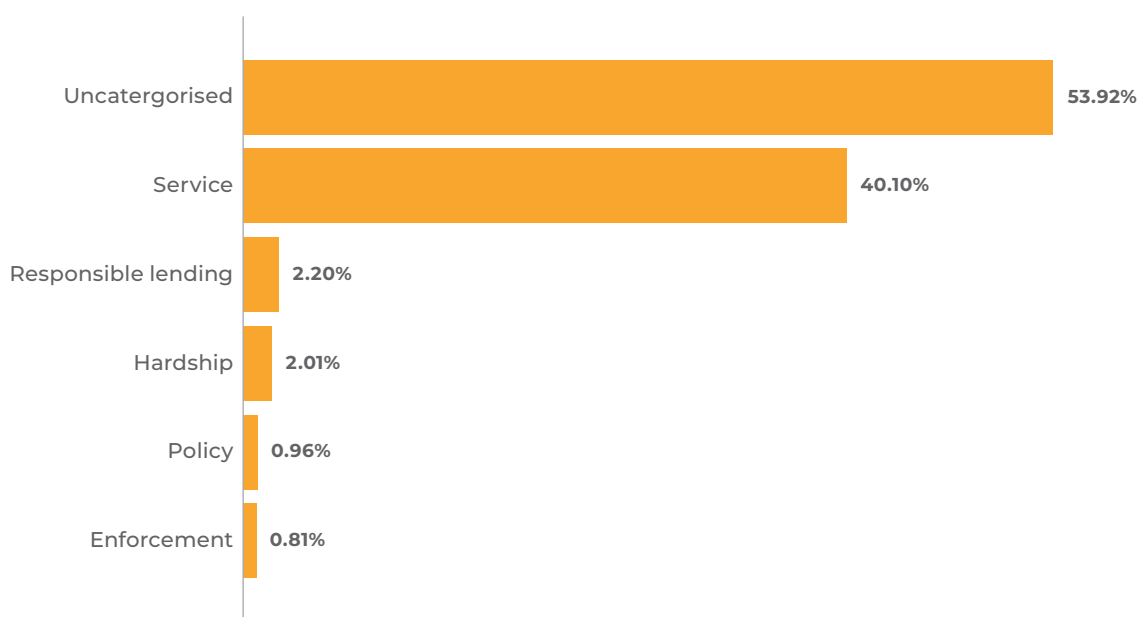
Comparison of credit products funded



Complaint data

Banks reported receiving a total of 2,090 guarantee-related complaints between 1 January 2022 and 31 December 2022.

Complaint types for guarantee-related complaints (2022)



Complaints categorised as 'service' included processes that are covered by Code obligations such as providing guarantee documents, guarantee execution, reducing guarantee liability limits, and ending a guarantee or removing a guarantor.

The relatively high volume of service complaints (40%) may indicate systemic issues. Banks should examine their complaint data to identify and rectify root causes to reduce similar complaints in future.

Differences in reporting capabilities across the industry resulted in the high number of 'uncatergorised' complaints (54%). Banks advised us that these complaints related to a guarantee but did not categorise them further.

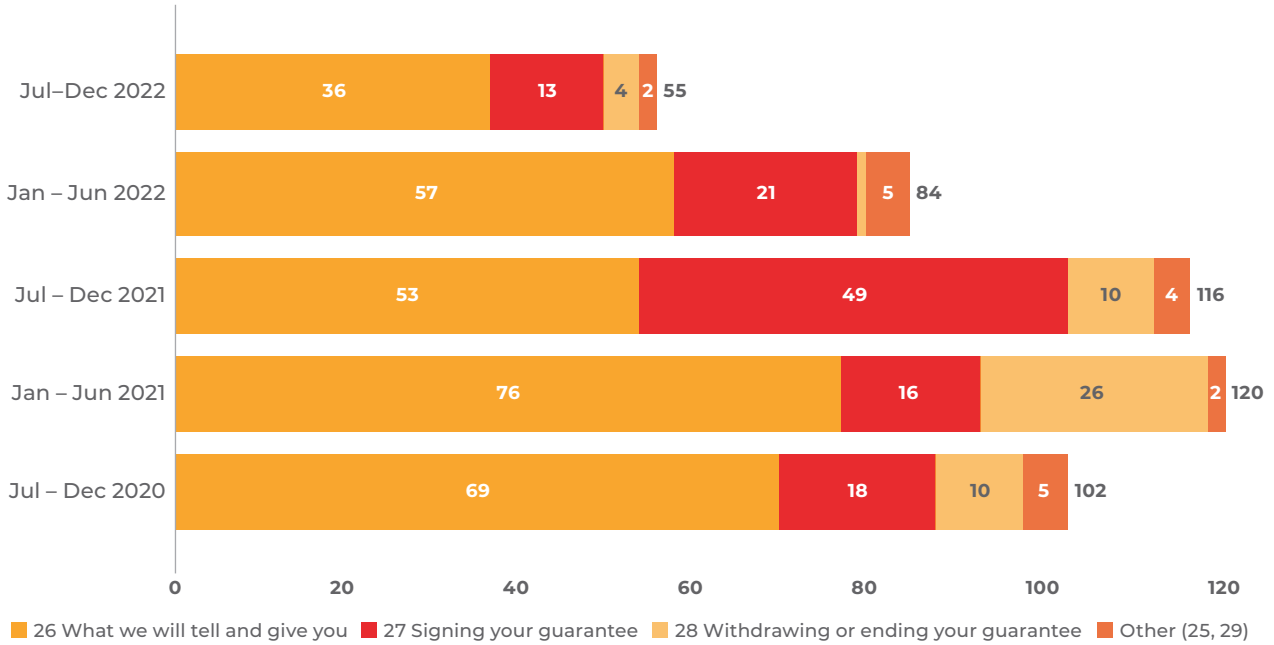
Breach data

Compliance statement breaches

Banks disclose their number of Code breaches in six-monthly reporting cycles. In reviewing Code breaches from July 2020 – June 2022, we made the following observations:

- Commencing our guarantees inquiry in 2019 appeared to heighten awareness of guarantee obligations which may have resulted in more reported breaches in January – June 2021.
- The 2021 Guarantees Report was published in August 2021 and banks may have started to implement report recommendations from this date. The improvements appear to have contributed to a significant decline in breaches of Code guarantee obligations in 2022.

Guarantee-related Code breaches



The decrease in reported breaches indicates a positive trend and likely reflects recent improvements banks have made to their guarantees processes.

Although guarantee-related breaches represent less than 1% of total breaches of the Code, they can have significant impacts on consumers. It is important that banks monitor compliance with these obligations and address issues when they arise.

Recommendations

We found that banks have made good progress in strengthening their processes for guarantees since our 2021 Guarantees Report.

However, room for improvement remains. Of the 23 recommendations made in our 2021 report, we found that three were not sufficiently considered by all banks.

Our report was published in August 2021 and banks have had ample time to consider and implement all the recommendations, where appropriate.



Original recommendations

We stand by these recommendations and expect all banks to consider implementing these three in full:

Original recommendation 4

Where possible, banks should meet face to face with the prospective guarantor to highlight the matters disclosed in the terms and conditions under clause 96 of the Code.

Original recommendation 12

Banks should audit compliance with the current Code's guarantee obligations. Audits should include an assessment of the controls in place to ensure compliance with the Code's guarantee obligations.

Original recommendation 23

Banks should strengthen their data capability by collecting guarantor outcome data, such as enforcement and complaints data, to gain insights into guarantee trends, compliance risks and customer outcomes for continuous improvement across the guarantee process.



New recommendations

Further to these, we also make new recommendations that banks improve governance for guarantees processes:

New recommendation 1

Apply effective controls to ensure that processes related to guarantee obligations are effective and operating as intended.

New recommendation 2

Ensure processes, record management and controls are applied consistently across retail and business banking units and across subsidiary brands.

New recommendation 3

Extend controls to third parties, such as brokers and solicitors, who undertake part of the guarantees process on behalf of the bank.

1. Compliance with pre-guarantee obligations

Our 2021 Guarantees Report found frequent non-compliance with pre-guarantee obligations. This non-compliance fell into three areas:

- Ensuring prospective guarantors receive adequate information, understand risks, and make informed decisions about giving a guarantee.
- Providing key disclosure information to prospective guarantors before accepting a guarantee.
- Ensuring the guarantee was signed in an appropriate environment.

In following up on the progress banks made in response to our 2021 Guarantees Report, we found positive improvements in these three areas. However, we also found practices that failed to meet our expectations.

Providing prospective guarantors with adequate information

Under the Code, banks have obligations to:

- Promote the Code (paragraph 4).
- Ensure staff understand and comply with the Code (paragraph 9).
- Provide certain notices and warnings to prospective guarantors (paragraphs 96–98).

Our follow-up inquiry found that banks used a range of methods to meet these obligations, including:

- Written notices and warnings to prospective guarantors.
- Verbal notices and warnings to prospective guarantors during interviews.
- Training for staff on general Code obligations and obligations specific to the guarantee process.

We consider it crucial that banks use a combination of communication methods when providing information to prospective guarantors.

Providing notices and warnings

In our 2021 Guarantees Report, we recommended that banks ensure staff consider the unique circumstances of a prospective guarantor when providing information about a guarantee.

We urged banks to go beyond the minimum standard of providing a general prominent notice of key disclosures because its effect differs in each situation.

While a general notice meets minimum Code obligations, it does not adequately consider a prospective guarantor's unique circumstances and needs.

Our follow-up found that banks employ a range of methods to communicate important information to prospective guarantors:

- Six banks use tools such as staff training or interview prompts to ensure their staff understand the important role they play.
- Six banks actively discuss warnings and important information during interviews, but:
 - One bank does not apply this consistently across its subsidiaries.
 - One bank plans to introduce a mandatory interview process to discuss Code information in 2023, almost two years after the publication of our 2021 Guarantees Report.
- Three banks have user-friendly fact sheets or guides.
- Two banks still rely solely on including important notices in their contractual documents.

Good practice



- Produce accessible fact sheets that provide key notices and warnings for guarantors in plain language.
- Actively discuss the fact sheet notices and warnings during interviews with prospective guarantors.
- Collect evidence – such as a signed acknowledgement form – to confirm the information was discussed with the guarantor.

Prospective guarantor interviews

In our 2021 Guarantees Report, we recommended that banks meet with prospective guarantors, face to face if possible, to discuss the notices and warnings they must provide to prospective guarantors.

Our follow-up inquiry found that most banks have put this recommendation into practice. Nine banks conduct a phone, video or in-person interview, and one bank plans to introduce this process in 2023.

We are pleased to see most banks better assess, assist and communicate with prospective guarantors through interviews. Interviews are a crucial element in allowing bank staff to present important information and assess potential vulnerability in a prospective guarantor. They also provide an opportunity for prospective guarantors to ask questions of the bank.

Doing things well



- One bank requires brokers to interview prospective guarantors. It updated its application system to include a mandatory broker attestation that aligns with specific Code paragraphs. This allows the bank to demonstrate better compliance with Code obligations for guarantees.
- One digital bank previously did not conduct interviews, but now requires staff to hold phone conversations with prospective guarantors and discuss in plain language the notices outlined in paragraph 96 of the Code. Quality assurance reviews take place using recorded phone calls and file notes.

We were concerned to find:

- Two banks hold no interviews and rely solely on written notices to communicate information required under paragraph 96 of the Code.
- One bank speaks to prospective guarantors via phone to confirm the receipt of documents and that it will proceed with the guarantee, but does not discuss the warnings and matters covered in paragraph 96 of the Code.
- One bank stated brokers were responsible for 95% of its loans but had no measures to ensure brokers covered important Code information with prospective guarantors.
- One bank mandated interviews for only some of its brands and did not mandate interviews for broker-originated loans.

Good practice



- Mandate interviews with prospective guarantors across all loan application channels, business units and brands.
- Ensure interview discussions cover the information required under the Code.

Staff training

In our 2021 Guarantees Report, we recommended that banks enhance the ability of their staff to tailor the way they present and discuss the notices and warnings they must provide to prospective guarantors.

This recommendation relies on banks providing staff with adequate training and guidance to be able to conduct guarantor interviews effectively.

Our follow-up found that 10 banks made multiple improvements to guidance for staff on the Code and its guarantee obligations. These banks improved training, knowledge management system articles, policies and procedures.

We were pleased that most banks require staff to complete dedicated Code training modules, which are often repeated six-monthly, annually, or biennially.

Seven banks provided training specific to the guarantee obligations under the Code for relevant staff, and also made the information available to staff outside of training modules.

Training was typically in the form of eLearning modules, and content was easily accessible in internal systems, policies or procedures. Training material covered:

- Guarantor types
- Risks to guarantors
- Guarantee liability limits
- Application of the Code
- Case studies to contextualise certain lending scenarios.

Some banks also provide lenders and credit assessors with further role-specific training, including dealing with more complex lending deals.

In line with a recommendation made in our [Building Organisational Capability Report](#), we were pleased to see banks store guarantee-related information in central knowledge management systems, policies or procedures. This enables staff to access the supporting resources required for their daily roles.

We were also pleased that three banks updated their eLearning modules with case studies, scenarios and 'what could go wrong' examples to better illustrate how the Code applies to guarantees. One bank used real client examples to develop their procedural training scenarios.

As noted in our Building Organisational Capability Report, effective narratives and storytelling are a means to engage staff and connect them to the spirit of the Code. Humanising the consequences of non-compliance helps ensure that staff keep Code compliance front of mind.

Doing things well



- One bank has guarantor-specific training modules for both proprietary lenders and brokers, which it improved with more case studies and scenarios. The bank also updated its internal knowledge management system articles with a guarantor matrix, which clarifies the different processes and protections available for different guarantor types.
- The same bank revokes access to its lending system for lenders who do not complete mandatory training on time. Staff are unable to lend until this mandatory training is completed.
- One bank developed a new guarantee operating model to guide staff and is revising its eLearning modules to include more content specific to guarantees, including scenarios of vulnerability and financial abuse.
- The same bank has introduced an annual message from a senior leader that links the bank's purpose and values to the Code's guiding principles and requirements. This bank uses top-down messaging and different communication channels as recommended in our Building Organisational Capability Report.

We were concerned to find:

- One bank only stores information in an internal procedure manual and does not have ongoing training on the Code and its guarantee obligations.
- One bank provides training to staff when they commence employment and then only when a policy or procedure changes.

- One bank implemented an eLearning refresher module after our original inquiry into guarantees but did not mention making relevant information available to staff outside their online training modules.
- One bank implemented mandatory training modules for retail staff but not business banking staff.

Good practice



- Ensure all staff receive regular training on the Code, including whenever there are changes to the Code, policies or processes.
- Make training material available to staff outside of eLearning modules and promote its availability, including how to access it.

Vulnerability obligations and guarantees (Part 4 of the Code)

Part 4 of the Code requires banks to provide inclusive and accessible banking services for all customers.

Our 2021 Guarantees Report recommended that banks enhance staff capability to identify vulnerable prospective guarantors who may need additional support to understand important information and risks associated with guarantees.

We urged banks to take extra care with guarantors in vulnerable circumstances and equip staff with guidance and resources to better support them.

This is especially important because of the increased risk that a vulnerable customer may sign a guarantee to their detriment.

Our follow-up found that most banks made a range of improvements to offer more inclusive and accessible banking services to prospective guarantors.

General improvements included:

- Seven banks implemented more specific training for staff on Code obligations and vulnerability.
- Seven banks updated policies and procedures or made better information available to staff on internal knowledge management systems.
- Four banks updated or introduced interview checklists to prompt staff to consider and record instances of vulnerability.
- Two banks introduced system flags to denote vulnerability in core banking or customer relationship management (CRM) systems.

We also found:

- Ten banks made guides, policy and procedural information on vulnerability always available to staff in line with our Building Organisational Capability Report.

- Four banks have monitoring controls to validate that vulnerable customers were appropriately assessed and assisted. This typically involves a sample review of interview checklists or the bank's vulnerable clients register.
- Seven banks support vulnerable customers in other ways, including offering interpreter services – either with internal staff, via the Translating and Interpreting Service (TIS National) or the National Relay Service – or by flagging vulnerable customers in their CRM systems and having staff follow documented vulnerable client escalation workflows.

CASE STUDY

Improving awareness of vulnerable customers

One bank created a Vulnerable Clients Register to record vulnerability and the support that its staff offered or care they took. The bank also created a flag in its client file system to record vulnerability.

Access to the Vulnerable Clients Register is restricted and each month a Senior Manager monitors it with reference to the bank's Vulnerable Clients Procedure to determine whether the bank had adequately captured vulnerability and provided appropriate support.

The Vulnerable Clients Register and system flag demonstrate that the bank actively considers, identifies and records vulnerability, and takes appropriate care. The monthly review serves as assurance that the process is operating as intended and is an opportunity to address issues and improve.

In addition to bolstering its system capability, this bank also reinforces vulnerability awareness and Code obligations via methods recommended in our Building Organisational Capability Report, including:

- An annual message from a senior leader to all staff linking their purpose and values to Code obligations.
- Running fortnightly 'Treating Customers Fairly' drop-in sessions for staff to ask questions about Code compliance and receive real-time advice.
- Holding scenario-based discussions relating to vulnerability and financial difficulty in branch meetings, led by risk and compliance managers.
- Using real-life examples and case study scenarios in procedural training and eLearning modules.
- A mandatory 'Treating Customers Fairly' module that is linked to incentives for staff.
- The creation of a centralised repository of information – including internal procedures, common scenarios, FAQs and external support links – to guide staff in assisting vulnerable customers.
- Communicating reminders or changes via various channels including newsletters, Microsoft Yammer and in person at weekly team meetings.

We were concerned to find:

- One bank updated vulnerability procedures and training for retail banking staff but did not do the same for its business banking unit.
- One bank's retail staff complete a guarantees training module covering identification of guarantors who may require additional assistance, but its business lending staff do not complete similar training.
- One bank relied solely on prospective guarantors obtaining their own legal advice. However, the bank does not confirm that the prospective guarantors sought legal advice and does not refer to any other tools, guidance or controls for staff to identify vulnerability and take special care with vulnerable customers.

CASE STUDY

Taking extra care with potentially vulnerable guarantors

One bank does not mandate interviews between its staff or brokers and prospective guarantors. To communicate information, warnings and notices required under the Code, it relies on templates within the Deed of Guarantee.

When asked how staff identify and assist guarantors who may require additional help to understand the nature of a guarantee, the bank stated it will not enter into a guarantee unless a prospective guarantor has obtained independent legal advice. It also recommends (but does not mandate) independent financial advice for a prospective guarantor who is elderly or on a fixed income.

This approach raises several concerns:

- Despite this requirement in its lending policy, the bank does not seek proof, such as a solicitor certificate or statutory declaration, to verify that the prospective guarantor obtained the independent advice.
- The bank has several exceptions to the policy, including "where the guarantor is considered financially astute and aware of obligations". This is a broad and subjective assessment that may cause confusion for staff.
- A guarantor may not wish to obtain legal advice and by mandating this the bank removes the element of choice from the guarantor.
- The bank effectively outsources its responsibilities by requiring prospective guarantors to seek their own independent advice.

The lack of direct contact with the prospective guarantor means that bank staff cannot easily assess whether the prospective guarantor understands all the relevant information or whether they require extra care or support.

This process does not support the bank in meeting its obligations in Part 4 of the Code to take extra care with customers who may be experiencing vulnerability.

CASE STUDY

Failure to identify a vulnerable guarantor

We received a report of a bank that failed to identify a guarantor experiencing vulnerability when signing a guarantee for a loan.

The guarantor was experiencing domestic violence and felt that signing the guarantee was their only safe option. However, they did not understand the specifics of the guarantee and were not able to seek independent legal advice.

The bank did not speak to the guarantor separately from the borrower and the guarantor was not given the opportunity to sign the guarantee in the absence of the borrower.

The bank had no controls in place to identify this individual as vulnerable and did not ensure the guarantee was signed in an appropriate environment as required under Chapter 27 of the Code.

The matter was brought to the Australian Financial Complaints Authority (AFCA). As the bank did not do enough to ensure the guarantor received adequate advice to make an informed decision about signing the guarantee, AFCA determined that the guarantee was unenforceable and that the bank should pay the guarantor a sum for non-financial loss as compensation for stress and anxiety it caused.

Good practice



- Promote awareness of vulnerability via repeated staff training and leader messaging, and by referencing it in processes and procedures.
- Build vulnerability prompts into staff processes, for example via a system flag, interview checklist or in escalation pathways.
- Equip staff to better assist vulnerable customers, for example by having specialist teams or interpreter services available.

Providing key disclosure documents

Banks have obligations under paragraphs 97 and 99 of the Code to provide prospective guarantors with key disclosure documents about the borrower.

These include the proposed loan contract, security contracts, credit reports, statements of account, notices of demand and statements of financial position.

Our 2021 Guarantees Report recommended that banks build the requirements of paragraphs 97 and 99 of the Code into the design of their processes and systems.

We suggested that banks update systems to automate the creation of guarantor disclosure documents and develop checklists for staff to support compliance.

Our follow-up inquiry found that banks generally had the requirement to provide key disclosure documents in their policies, processes and procedures, but some lacked the assurance measures to ensure staff were following them correctly.

Although 12 banks had procedures and checklists to send the required disclosure documents to guarantors, we found varying levels of assurance in place.

Six banks have some form of review or control that validates the process for collating and sending guarantor documents. These include:

- Sampling guaranteed loans to validate documents.
- Internal controls and third-party controls to ensure guarantor packs include all disclosure documents.
- Additional controls to ensure any documents generated manually are complete and correct.

Two banks are developing solutions to retrieve documents more easily, including digital storage and automatic retrieval of credit reports and notices of demand.

We were concerned to find:

- Procedures for three banks did not cover all documents required in both paragraphs 97 and 99 of the Code.
- Most banks still require staff to manually compile and send key disclosure documents to guarantors. There is little to no system automation.
- Two banks have quality checks only to verify that loan documents are stored correctly. These checks do not extend to reviewing disclosure documents sent to guarantors.

It is important that banks have appropriate controls to ensure that staff follow procedures and that disclosure documents are complete and correct.

Doing things well



One bank reduces the chance of human error by system-generating disclosure documents and other contents of the guarantor pack.

Staff do not manually produce documents for the guarantor pack, except in certain cases of business lending.

When staff need to manually produce business lending documents, there is a control to validate that the loan documentation is complete and correct before finalising the application.

Good practice



- Invest in upgrades to automate all or some aspects of the process for collating and sending key disclosure documents to guarantors.
- Alternatively, use methods such as checklists to ensure staff compile and send all required documents completely and correctly.

2. More effective record management

In our 2021 Guarantees Report we recommended that banks improve their record keeping practices to better demonstrate compliance with guarantee obligations.

Our follow-up inquiry found some improvement in training, procedures and other guidance materials related to collecting and keeping records.

However, we were disappointed to find few banks had controls to ensure staff are following correct processes. In some instances, we also found a lack of consistent procedures for record collection and storage of guarantee-related documents across all areas of a bank's business.

Pre-guarantee records

Our 2021 Guarantees Report cited poor record-keeping as the leading reason banks could not adequately demonstrate compliance with pre-guarantee obligations.

Our follow-up inquiry looked into the progress banks had made in improving record management at the pre-guarantee stage of the process.

Doing things well



One bank has a comprehensive record management system to demonstrate compliance with its pre-guarantee Code obligations. It includes:

- A procedure that instructs staff on pre-guarantee processes, including how to store records.
- A guarantor interview checklist that guides interview discussions. The checklist and interview notes are uploaded to the customer's file.
- A guarantor information pack containing disclosures sent directly to the guarantor, with the method of delivery recorded in the customer's file along with copies of the documents.

A separate team reviews the checklists and disclosure documents for accuracy.

Interviews

Ten banks conduct or intend to conduct interviews with prospective guarantors. We found a mix of methods used to record interview outcomes, including:

- File notes of staff interview or phone discussions.
- Signed lender and guarantor acknowledgement forms.
- Checklists as both guidance tools and records of the interview.

We were concerned to find:

- Only seven banks keep interview records using one of the three methods.
- A lack of clarity on how banks used reviews or controls to validate that interviews took place and whether they kept accurate records.

Key notices and prominent warnings

Paragraph 96 of the Code requires the terms and conditions of the guarantee to include prominent notices and warnings about the requirements, responsibilities and risks of a guarantee.

Our 2021 Guarantees Report recommended that banks consider the unique circumstances of a prospective guarantor and urged banks to go beyond the minimum standard of providing a general warning notice in loan documents.

Our follow-up inquiry found several banks met our recommendation by having staff discuss notices and warnings with prospective guarantors during interviews:

- Four banks rely on an interview checklist or acknowledgement form.
- Two banks hold telephone conversations with prospective guarantors to cover matters under paragraph 96 of the Code, recorded via file notes.

We still found one area of concern:

- While all six banks keep records of the discussion using file notes, checklists or acknowledgement forms, it was unclear whether these banks reviewed these discussion records for quality assurance purposes.

In our Building Organisational Capability Report, we found some participants felt that embedding Code requirements into workflows would better enable them to meet their obligations.

We observe in this report that some banks do this well by embedding Code requirements in interview or process checklists, such as disclosing guarantee warnings or identifying vulnerability. The checklists serve as a prompt for staff as well as a compliance record to ensure banks meet Code obligations.

Good practice



- Maintain records – such as interview checklists – as evidence that staff interview prospective guarantors and discuss key notices and warnings.
- Review a sample of these records for assurance that interviews and discussion of key notices occur as intended.
- Ensure records are maintained and controls are utilised consistently across different distribution channels, business divisions and brands.

Key disclosure documents

Banks have obligations in paragraphs 97 and 99 of the Code to provide disclosure documents to prospective guarantors. Our follow-up inquiry found that banks did not always maintain records to evidence that they had done so.

Some banks used checklists and quality assurance controls to demonstrate they met these Code obligations. However, this was not applied consistently.

We found:

- Seven banks use checklists or forms to record that disclosure documents were sent to guarantors.
- Three other banks did not use checklists but had other controls in place to validate completeness of guarantor documents.

Procedures alone do not sufficiently demonstrate that banks comply with their Code obligations. We encourage banks to keep adequate records and use controls to demonstrate that guarantors receive all the documents they require.

We were concerned to find:

- Checklists for three banks only ensure that staff collated documents required in paragraph 99 of the Code, but not paragraph 97.
- Two banks have processes for staff to follow when collating guarantor documents, but no checklist or controls that show this occurs correctly.

The need for improvement



Banks have an obligation to provide prospective guarantors with a copy of a borrower's credit report (Chapter 26, paragraph 99).

We received a report of a bank that did not conduct a credit check on a borrower and failed to supply the relevant credit report to the prospective guarantor.

The bank argued that it was pointless to obtain a credit report for the borrower because the borrower was a new business, and had no relevant credit history.

However, the bank did not take any alternative steps, such as obtaining a credit report for the proposed director of the new business.

This seriously affected the prospective guarantor's ability to make an informed decision before signing the guarantee.

Good practice



- Enhance evidence records, such as checklists, to demonstrate that all required documents are sent to prospective guarantors.
- Implement preventative or detective controls to ensure prospective guarantors receive complete and correct documentation.
- Align these practices and controls across external suppliers, business units and brands where possible.

Guarantee execution records

Chapter 27 of the Code (paragraphs 107 – 110) requires a bank to:

- Send guarantee documents directly to the prospective guarantor and not the borrower.
- Not accept a guarantee until three days after giving the guarantor information relating to the loan and borrower unless the guarantor has obtained independent legal advice.
- Ensure the guarantee is signed in the absence of the borrower, if the bank attends the signing.

In our 2021 Guarantees Report, we recommended that banks assess how they monitor compliance with the guarantee execution obligations.

We recommended that banks identify and address gaps, including when banks are reliant on solicitors to arrange for the guarantee to be executed.

Our follow-up inquiry found banks had made some improvements to guarantee execution processes in response to our 2021 Guarantees Report, including:

- Enhanced training or staff reminders
- Improved processes
- Improved forms, and
- Better controls or quality assurance processes.

While banks might document guarantee execution requirements in policies, procedures or staff training, we found banks could do more to:

- Maintain records of the circumstances of guarantee execution, and
- Apply governance and oversight to those records to ensure they demonstrate compliance.

Providing documents directly to a guarantor

Banks have an obligation to provide guarantee documents directly to the guarantor for signing and must not give guarantee documents to the borrower.

We found that banks were limited in explaining how they met this obligation:

- Two banks noted their systems send guarantor packs directly to guarantors.
- Three banks rely on forms or checklists to confirm they send guarantor documents correctly.

We were concerned to find:

- Of the three banks that use checklists to ensure they send guarantor packs correctly, only one performs an independent review and has a control in place to validate the checklist.
- Four banks have procedures stipulating that they must send guarantor packs directly to the guarantor, but did not specify how they ensure it occurs.
- A consumer feedback survey found two instances of banks sending documents to borrowers instead of sending them directly to guarantors.

Banks may have provided limited explanations for how their records demonstrate compliance with paragraph 109 of the Code because the delivery address itself is a record of compliance with the obligation.

However, banks should consider introducing more controls, such as quality assurance reviews, to validate that they correctly address guarantor packs to ensure delivery directly to guarantors.

Good practice



- Ensure systems or mail distribution suppliers send guarantor packs directly to the guarantor instead of the borrower.
- If documents are collected from branches, staff should verify the guarantor's identity and record their receipt of their documents via a signed acknowledgement form.
- Implement controls, such as quality assurance reviews, to ensure that documents are addressed and delivered directly to the guarantor.

Signing of the guarantee

In our 2021 Guarantees Report, we recommended that banks keep accurate records of the circumstances in which the guarantee is executed to demonstrate compliance.

Paragraph 110 of the Code states that if a bank attends the signing of the guarantee, it will ensure the guarantee is signed in the absence of the borrower.

We are pleased to see some banks go above and beyond this Code obligation by recording evidence of the borrower's absence, regardless of whether staff are present at the signing of the guarantee.

Our follow-up inquiry found:

- Five banks collect evidence that a guarantee is signed in the absence of the borrower, including signed forms, checklists or witness declarations.
- One bank plans to update its guarantor acknowledgement form to capture this requirement.

We were concerned to find:

- Two banks only capture this execution requirement in their procedure documents or in a written instruction to the guarantor. They did not state how they show compliance.
- Of the five banks that rely on checklists, forms or witness declarations to record the signing of the guarantee, only three perform quality assurance reviews on these records.

We acknowledge the Code only requires banks to ensure the guarantee is signed in the absence of the borrower if bank staff attend the signing of the guarantee.

We commend the banks that keep records to ensure the guarantee is signed in the absence of the borrower even when they are not present at the signing.

We encourage more banks to aim for this higher standard of conduct by adopting similar practices.

Good practice



- Make the guarantor aware that the guarantee should be signed away from and without undue influence from the borrower.
- Collect a document from the guarantor affirming that this occurred.
- Apply controls, such as sample reviews, to validate that these records are being collected.

Accepting a guarantee

Paragraph 107 of the Code stipulates that banks should not accept a signed guarantee until the third day after the guarantor has been provided with the necessary disclosure information covered in paragraphs 96–99.

However, a bank can accept a guarantee earlier if certain circumstances apply, which includes when the guarantor has obtained independent legal advice.

We found:

- Four banks use a dated form or a checklist to verify that they met the three-day waiting period.
- Two banks have system controls in place to ensure the guarantee is not accepted within the three-day period.
- One bank did not enforce this requirement because it requires all guarantors to seek independent legal advice in all cases. It has a second-line review of the legal advice.

We were concerned to find:

- Of the banks that use a form or checklist as evidence that it met the three-day waiting period, only two performed additional reviews to confirm the validity of those documents.
- While one bank has a system control to ensure compliance with paragraph 107 of the Code, this only applies to business loans. The same control is not present for retail lending.
- Two banks noted the paragraph 107 requirement in their procedures but did not provide further detail on how they comply.

Some banks may have placed less importance on the three-day rule due to the exception that comes with guarantors seeking independent legal advice.

We found that eight banks discuss the need to seek independent legal advice with prospective guarantors, but only five actively collect evidence confirming that the guarantor obtained that advice, such as a solicitor's certificate or statutory declaration.

Doing things well



One bank exemplifies good practice by:

- Completing a checklist to record guarantor execution steps.
- Obtaining solicitor confirmation if the guarantor sought independent legal advice.
- Completing a signed witness certificate to attest the guarantee was signed in the absence of the borrower if the bank attends a signing.
- Conducting independent quality assurance reviews on a sample of guaranteed loans with management oversight.

Multiple information records, coupled with quality assurance reviews, ensure that the bank stores evidence of guarantee executions in line with its procedure and is available to demonstrate Code compliance in the event of a compliance review or audit.

The need for improvement



In examining our data on Code breaches, we found six instances of a bank failing to meet execution obligations.

The failures included accepting the guarantee within three days of the information being provided and failing to execute guarantor documents in absence of the borrower.

Although the bank has a procedure and checklist to ensure it meets guarantee execution requirements, the lack of extra controls led to breaches of the Code.

The bank now plans to improve its guarantor acknowledgement form to record the guarantor's receipt of documents, show that it provided documents directly to the guarantor, and ensure the guarantee is signed in the absence of the borrower.

The acknowledgement form will be subject to document verification processes for greater assurance of Code compliance.

Good practice



- Prompt guarantors to consider seeking independent legal advice, particularly when staff identify vulnerability in the guarantor.
- Seek confirmation of legal advice if the guarantor obtains it, such as with a statutory declaration or solicitor's certificate.
- Collect appropriate evidence or confirmation that demonstrates guarantees are accepted after the three-day period.

3. Improving compliance monitoring

In our 2021 Guarantees Report, we recommended that banks review and strengthen their routine monitoring capabilities to demonstrate compliance with the Code's guarantee obligations.

Audits

Our 2021 Guarantees Report recommended that banks audit their compliance with the Code's guarantee obligations. Our follow-up inquiry found that six banks complied with this recommendation.

We found:

- Four banks had completed an audit in 2020 as part of the original inquiry.
- Two banks conducted audits after we published the 2021 Guarantees Report.
- Five of the six banks that conducted audits intend to repeat audits in 2023.
- Four banks have not yet conducted an audit as recommended, but plan to do so in 2023–24.
- Four banks have not conducted nor scheduled an audit.

We hold the following concerns:

- The lack of audit activity from some banks.
- For the banks with plans to conduct an audit in 2023–24, it has taken too long. Our original report was published in August 2021 and, given the compliance issues and risks we identified had relevance across the industry beyond the banks that were part of the original inquiry, we expected a timelier response.
- For the banks with no plans to conduct an audit, we consider the routine quality assurance reviews and Line 1 or Line 2 monitoring to lack the scope, independence and tracked actions of a dedicated audit.

Good practice



- Plan periodic audits to ensure continued compliance with Code obligations. This enables staff to identify gaps, record remediation actions, and track actions to completion.

Monitoring compliance with guarantee obligations

Our 2021 Guarantees Report recommended that banks assess how they monitor compliance with the guarantee obligations and make improvements where they identify gaps, including where they rely on solicitors for guarantee execution.

Our follow-up inquiry found varying levels of governance in place to monitor compliance with Code guarantee obligations.

Most banks demonstrated some form of monitoring, with methods ranging from quality assurance reviews to formal, tested controls that follow an assurance framework. However, there generally remains a lack of formal controls and audit activity which would more thoroughly satisfy the compliance monitoring recommendations of our original report.

We found:

- Five banks undertook some form of monitoring of guaranteed loans, such as peer reviews, quality assurance reviews or hindsight reviews.
- The same five banks demonstrated further assurance via controls testing or monitoring by first-, second- or third-line risk teams.
- Six banks conducted peer or quality assurance reviews on a sample of guarantees, but with no controls testing by their risk teams.
- Two banks did not mention performing quality assurance or peer reviews, but noted they had controls as an assurance method.

We were concerned to find:

- Four banks conduct only general quality assurance on a sample of their overall home loan portfolio, rather than targeted reviews of guaranteed loans. If guaranteed loans are included in the reviews, it is by chance only.
- For guarantee execution obligations specifically, only three banks have formal controls in place to monitor compliance.

Doing things well



- One bank introduced an annual control to review a targeted sample of 30 guaranteed loans each year and assess compliance with key Code obligations.
- One bank implemented a range of monitoring activities, including peer reviews, independent quality assurance reviews, Line 1 risk reviews and reviews from its external panel solicitor who issues guarantee documents on its behalf.

Good practice



- Conduct targeted reviews of guaranteed loans, specifically considering whether the guarantee was obtained and managed in line with obligations under Part 7 of the Code.
- Periodically review templates, checklists and quality assurance test scripts to ensure they meet Code requirements.
- Improve governance with controls testing, line two assurance reviews or line three audits.

Third-party governance

Our follow-up inquiry revealed a lack of governance over third parties, such as panel solicitors and brokers, who undertake part of the guarantee process on behalf of the bank.

We were concerned to find:

- One bank noted its panel solicitors may meet prospective guarantors, but it did not keep written records of these meetings on file.
- One bank reported that brokers account for approximately 95% of its loan applications, but it could not demonstrate sufficient governance over this channel.

We understand that banks may have limited influence over broker procedures but it is important to use appropriate governance measures where possible.

Effective measures include the use of forms, checklists or attestations for brokers to confirm covering Code awareness and obligations with prospective guarantors.

Banks may also discuss with aggregators whether Code training or consistent processes can be applied for brokers at the aggregator level.

Good practice



- Require brokers or external legal firms to complete checklists or declarations that evidence compliance with Code obligations.
- Require both brokers and proprietary lenders to provide standardised information packs to prospective guarantors.
- Provide training on Code guarantee obligations to both internal staff and relevant third parties, such as brokers.

4. Dealing with non-compliant guarantees

Our 2021 Guarantees Report found that banks dealt with instances of non-compliance on a case-by-case basis and relied too heavily on legal advice to determine the validity and enforceability of a guarantee.

We recommended that banks apply a more consistent and standardised approach to rectifying non-compliant guarantees, and implored the approach be 'fair, reasonable and ethical' in line with paragraph 10 of the Code and its Guiding Principles, rather than being overly legalistic.

While legal advice is important, a decision to enforce a guarantee should also consider what is fair and reasonable in the circumstances and not be solely based on whether it is legally permissible.

Our follow-up inquiry found several improvements to processes to better address non-compliant guarantees:

- Two banks improved their pre-enforcement review processes to ensure all instances of non-compliance are recorded and treated in line with documented risk and remediation policies.
- Two banks improved their pre-enforcement checklists and review processes to help staff better identify and rectify non-compliant guarantees prior to enforcement.
- Three banks enhanced their debt recovery processes to ensure reviews actively consider whether a guarantee was obtained in line with the Code.
- One bank improved its procedures to include a remediation guide specific to guarantees and created a new quick reference guide for staff.
- One bank escalates non-compliant guarantees to the relevant area of the business for resolution, logs the incident in its risk management system, and reports incidents to the Board Risk Committee.

Policies dealing with non-compliance

Our follow-up inquiry found that banks generally manage instances of non-compliant guarantees via their risk incident management policies and by logging them in their governance, risk and compliance (GRC) systems.

Most banks had existing risk management processes to manage instances of non-compliance. We were pleased to note the existing policies only required minor improvements, including:

- Adjustments to procedures to better help staff identify non-compliance.
- Clarification of remediation guidelines.
- Assurance that breaches identified in the quality assurance process are logged in the bank's GRC system and reported to the Operational Risk team.

Our Building Organisational Capability Report recommended that banks use their breach data to identify opportunities for improving compliance outcomes.

While we are pleased to see banks record risk incidents in GRC systems and remediate these accordingly, we strongly recommend they take the opportunity to review this data to deliver strategic fixes that address underlying root causes of systemic non-compliance to prevent future breaches.

Policies dealing with remediation

In our 2021 Guarantees report, at recommendation 22, we recommended that banks:

- a) deal with the impacted guarantee/guarantor in accordance with paragraph 10 and the Guiding Principles that underpin the Code
- b) proactively determine if the guarantee is unenforceable and take appropriate action to rectify and remediate impacted customers and guarantors
- c) ensure that they consider the risk of current and future financial and non-financial loss because of non-compliance and remediate losses accordingly
- d) communicate with impacted customers and guarantors in a clear and timely manner – including providing them with information on how to lodge a complaint with a bank's internal dispute resolution (IDR) team or the Australian Financial Complaints Authority (AFCA).

Our follow-up inquiry found that while most banks had risk management procedures, policies, standards or frameworks that covered appropriate remediation of non-compliance, they did not uniformly address the specifics of our recommendation.

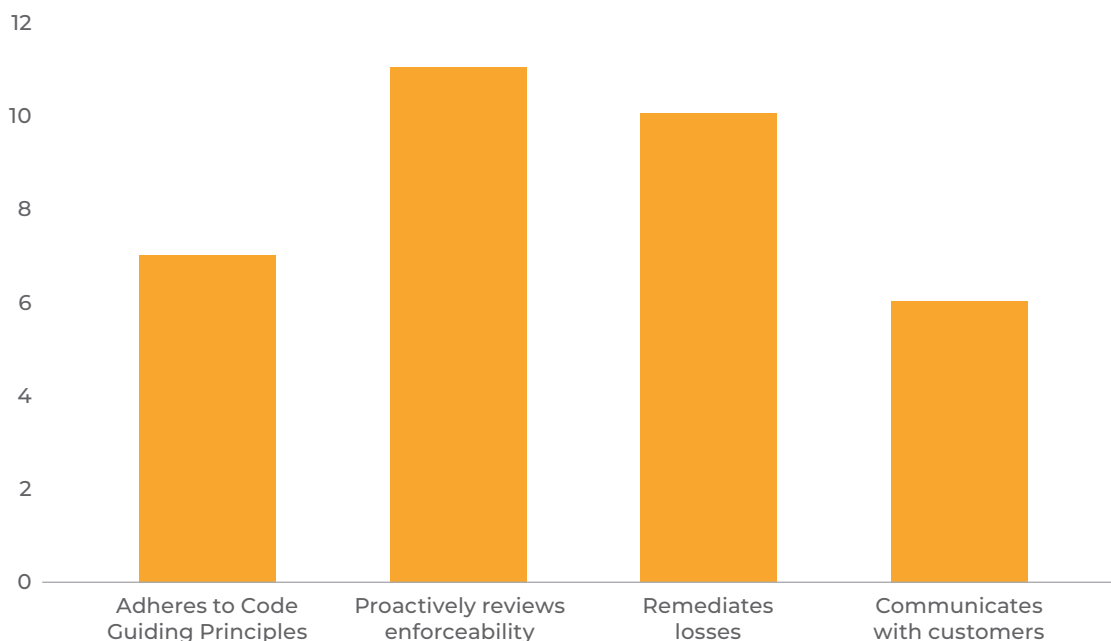
We found:

- Thirteen banks manage remediation in line with their risk management policies.
- Five of these banks also had supplementary processes, including:
 - Complaint handling or dispute resolution processes
 - Group-wide remediation policies
 - Guarantee-specific remediation guides.
- Seven banks confirmed their policies adhered to the Code guiding principles and the need to treat customers fairly, reasonably and ethically.
- Eleven banks proactively consider whether a guarantee is enforceable, consider potential losses to the guarantor, and apply remediation accordingly.

We were concerned to find:

- Only six banks referred to sending an apology or explanatory communication to affected customers and only three confirmed they provide information on dispute resolution or AFCA details.
- Six banks did not confirm they had specific policies or procedures to ensure appropriate remediation of non-compliance.

Banks' remediation approaches



Good practice



- Ensure training, policies and procedures align to encourage a culture of treating affected parties ethically and fairly.
- Ensure remediation approaches explicitly cover 'fair, reasonable and ethical' treatment.
- Communicate with affected parties in a clear and timely manner.

The mandate to treat customers fairly is echoed in ASIC's regulatory guide RG 277 Consumer Remediation, which asks banks to adopt a remediation process that is efficient, honest and fair.

Released in September 2022, RG 277 requires a bank to implement a remediation communications plan that ensures customers:

- a) understand what has happened
- b) are provided with updates when necessary and appropriate
- c) understand the remediation outcome and what it means for them, including how they can make further inquiries, and
- d) are able to easily follow any necessary calls to action, with support when needed; and are told how they can make a complaint about the remediation outcome.

We recommend banks review their remediation policies and processes to comply with our original recommendation 22, as well as with ASIC's RG 277.

CASE STUDY

A fair remediation approach

One bank conducted a review of guaranteed loans to assess Code compliance.

It found several subsidiary-brand loans with compliance exceptions affecting 10 customers. The bank obtained legal advice to understand whether the exceptions constituted regulatory breaches and to determine whether the guarantees remained enforceable.

Although the advice said the guarantees were legally enforceable, the bank's management found it appropriate to treat the guarantees as unenforceable and decided they could not be used to recover potential credit losses.

The bank subsequently enhanced its controls to ensure that it now obtains and records loan documentation correctly.

Non-compliance and enforcement

In our 2021 Guarantees Report, we recommended that banks:

- Guide staff to negotiate alternative debt recovery options with the primary borrower before enforcing a guarantee, and embed a culture where enforcement is a last resort.
- Conduct pre-enforcement reviews of a guarantee to ensure that it has been obtained in accordance with the Code before commencing enforcement action.
- Require the oversight and authorisation of a senior level executive when enforcing a guarantee, especially if it involves repossessing the guarantor's primary place of residence.

Our follow-up inquiry found that banks had various methods to ensure enforcement processes are fair and ethical.

We found that banks had:

- Debt collection processes that ensure staff explore alternative debt recovery options, with enforcing guarantees only a last resort.
- Pre-enforcement checklists to review Code obligations more thoroughly.
- Pre-enforcement reviews and the requirement to seek senior approval before commencing enforcement action.

Thirteen banks detailed how they managed enforcement of a guarantee. Of these:

- All conduct pre-enforcement reviews and all confirmed they seek some level of senior approval before commencing enforcement.
- Nine confirmed their documented policies and procedures promoted guarantee enforcement as a last resort.

We were concerned to find:

- Two banks did not seek an appropriately senior level of executive approval before commencing guarantee enforcement
- Three banks could improve pre-enforcement reviews by extending them to all business units and ensuring they actively consider whether a guarantee was obtained in line with Code obligations.

Debt recovery approaches

Our 2021 Guarantees Report recommended that staff negotiate alternative debt recovery options with the primary borrower before enforcing a guarantee.

Our follow-up inquiry found that 11 banks had a documented collections procedure or policy that encouraged exploring alternative debt recovery options.

We found:

- Nine banks explicitly confirmed they enforce guarantees as a last resort.
- Nine banks confirmed they work with the borrower to recover the debt in the first instance.
- Four banks also explore alternative options with the guarantor.
- Five banks improved debt collection procedures to give staff clearer guidance and ensure they explore alternative debt recovery options.

Good practice



- Review debt recovery procedures to ensure staff explore alternative debt recovery options with guarantors before enforcement.
- Ensure standard collections policies and staff training emphasise that guarantees should only be enforced as a last resort.

Pre-enforcement reviews and approvals

Our 2021 Guarantees Report recommended that banks conduct pre-enforcement reviews and that enforcement is approved by a senior level executive of the bank.

Our follow-up inquiry found 13 banks conduct pre-enforcement reviews. Of these:

- Two banks mentioned they conduct reviews for only one business unit, but do not conduct pre-enforcement reviews across all parts of the business.
- One bank's review did not consider whether the loan originally complied with Code obligations unless specific complaints or concerns were raised.
- Eight banks made improvements to their pre-enforcement processes following our original report.

Before commencing guarantee enforcement, we found 13 banks require approval from a senior-level staff member, though not always at executive level.

- Five banks introduced a requirement to seek senior executive approval in response to our original report.
- Two banks do not seek executive-level approval in all cases:
 - One bank permits Collections Managers to approve guarantee enforcements, with only complex and sensitive matters referred to a senior level executive committee for further consideration. It is unclear what constitutes a complex or sensitive case.
 - One bank consults senior leaders in credit, risk and compliance, and its Customer Advocate, before enforcing a guarantee. It is unclear whether it seeks executive-level sign-off before proceeding.

We made the original recommendation in the spirit of promoting better practice and we encourage all banks to aim for a higher standard of conduct than what is strictly prescribed by Code obligations. Therefore, we encourage all banks to adopt pre-enforcement reviews and to seek authorisation from senior level executives before commencing enforcement proceedings.

Good practice



- Undertake and document pre-enforcement reviews consistently across all brands, business units and loan types.
- Require approval from a senior level executive before enforcement proceedings commence.

Doing things well



One bank has a comprehensive review and approval process, including:

- A pre-enforcement file review validating that it met all obligations.
- The option to engage external solicitors if needed.
- Preparation of a credit submission report, which includes the file review findings, supporting documentation and legal advice.
- A requirement for the credit submission report to be approved by a senior-level manager.

Another bank's enforcement process has:

- Multiple checkpoints ranging from Agent to Team Leader to Senior Manager to Executive, depending on the enforcement situation.
- A 'fairness review' to ensure the customer was treated fairly.
- Checkpoints for pre-eviction, eviction and court possession that require approval from an executive or their delegate.

5. Improving data capability

Data collection

In our 2021 Guarantees Report, we recommended that banks strengthen their data capability to gain insights into guarantee trends, compliance risks and customer outcomes for continuous improvement.

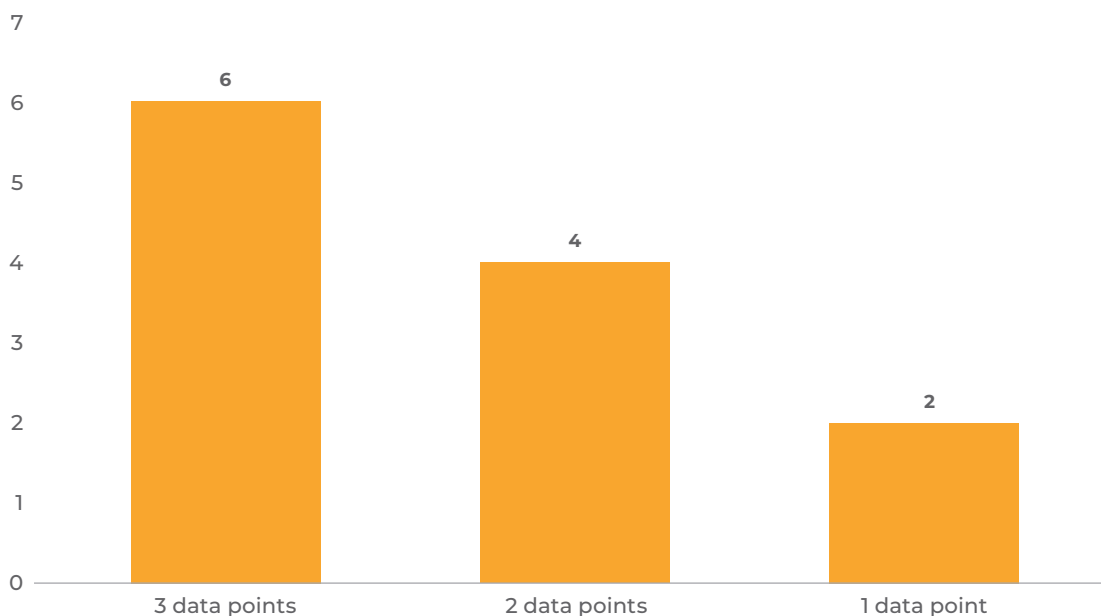
Our follow-up inquiry found that most banks either currently collect or plan to begin collecting data related to guarantees in three categories: complaints, enforcements and risk incidents.

The type and number of guarantee-related data points collected by banks varied.

Types of data banks collect



Data points collected by banks



We were concerned to find:

- Banks stated they mainly collect data on complaints, but not enforcement outcomes or risk and compliance incidents.

Data from complaints alone does not offer sufficient insight into potential systemic issues and opportunities for improvement across the whole guarantee process.

Collecting information on guarantee enforcement can provide further insight for a bank. It can help identify potential issues with borrowing and lending practices and their root causes, providing opportunities to improve.

Data from risk and compliance programs can add further insights by highlighting common root causes and systemic issues for a bank to address.

Good practice



- Collect as many guarantee-related data points as possible – examples include data on complaints, enforcements and risk incidents.
- Proactively explore other data sources that may provide insights and help shape improvements in guarantee processes.

Data analysis

While most banks collect at least some guarantee-related data, they did not explain how they use it.

Our follow-up inquiry found a general lack of quality analysis for guarantee-related data. We found:

- Two banks currently analyse guarantee-related data.
- Two banks plan to begin analysing guarantee-related data.

We were concerned to find:

- Of the four banks that currently analyse or plan to analyse guarantee-related data, most do not analyse multiple data points.
 - Only one bank analyses three points of data.
 - One bank analyses complaints data only.
 - One bank analyses complaints and incidents data only.
 - One bank plans to analyse multiple sources of data, but did not specify which points.
- Thirteen banks did not demonstrate that they currently analyse or will analyse any points of guarantee data.

Our Building Organisational Capability Report recommended that banks consolidate data from multiple channels to obtain a holistic view of Code compliance. This enables banks to identify and correct systemic issues via a process of continuous improvement.

In our follow-up, we were disappointed that few banks actively gather and use guarantee data to identify improvement opportunities.

Good practice



- Actively analyse collected data to identify risks, systemic issues, trends and improvement opportunities.
- Act on and deliver improvements identified in guarantee processes.

Doing things well



- One bank monitors data on portfolios, arrears and complaints and regularly reviews guarantor complaints for key themes.

The bank plans additional enhancements to this process by monitoring guarantee enforcement outcomes. One of its subsidiary brands will introduce monthly reporting on guaranteed loans, guarantor complaints, enforced guarantees and risk and compliance incidents relating to guarantees.

- The same bank also reviews its self-reported Code breach data to identify areas for improvement.

In one instance, the bank discovered that staff had not provided certain disclosure documents to guarantors on more than one occasion. In conducting a root cause analysis, the bank found an important gap in its processes and procedures which likely caused the breach. It updated its processes and procedures as a result. The bank then delivered refresher training to staff to address the underlying issues.

- Sample breach data from another bank indicates that it assesses the circumstances of every breach, including the process, the policies and training, and the existing controls. This allows the bank to identify potential gaps and assess where it can make long-term improvements to prevent recurrence of similar breaches in the future.

Conclusion

Banks are to be commended for the efforts they made in improving guarantee practices since we published our 2021 Guarantees Report.

In this follow-up inquiry, we saw improved processes and procedures, as well as more thorough record management practices, that will help banks comply with Code obligations and lead to better protections and outcomes for consumers.

Although there were important improvements, we found that progress in certain areas had not met our expectations.

Not all of the recommendations from the original report were implemented.

We expected banks to thoroughly consider all the recommendations and make efforts to deliver improvements using the approach that works best for them and their operating context. Given the time between our original report being published and this follow-up inquiry, we thought this expectation was reasonable.

Our follow-up inquiry also highlighted the need to approach improvements with consistency. We found that some banks had made changes or improvements in a fragmented or intermittent way that undermined governance across their business as a whole.

When implementing the necessary controls and monitoring practices designed to strengthen the guarantees processes and protect consumers, banks must ensure all departments, subsidiary brands, and relevant third parties, such as brokers and panel solicitors, are included.

Banks have more work to do to address the further recommendations highlighted in this 2023 Guarantees Follow-Up Report and ensure their guarantee practices meet Code obligations and consumer expectations.