**NAB's Andrew Thorburn & David Gall appear at Parliament House - 19.10.18**

**Summary:**
Hansard Transcript - The Treasurer has asked the Standing Committee on Economics to inquire into and report on a Review of Australia's Four Major Banks. This is the National Australia Bank's (NAB) appearance at the fourth review. Members of the Bank Reform Now team were in attendance to bear witness.

The MPs on the committee did a magnificent job. The CEOs were not able to bluff their way out of being accountable. We have saved the transcript here for you.

Article Information**Banking Company:** NAB
**Author:** Standing Committee on Economic
**Source:** Federal Government
**Date First Published:** 19 Oct 2018

Posted ByPeter Brandson
20 Oct 2018 - 10:45am

**Standing Committee on Economics - 19/10/2018 - Review of Australia's four major banks - NAB's Andrew Thorburn & David Gall**

GALL, Mr David, Chief Customer Officer, Corporate and Institutional Banking, National Australia Bank

THORBURN, Mr Andrew, Group Chief Executive Officer and Managing Director, National Australia Bank

Committee met at 09 :15

CHAIR ( Mr Tim Wilson ): I declare open this hearing of the House of Representatives Standing Committee on Economics for the review of the four major banks. This is the fourth round of hearings that the committee is undertaking as part of its review. These hearings provide an important opportunity to scrutinise the bank CEOs following the shocking revelations of the royal commission. Commissioner Hayne's interim report identified incentives in banks that are against the interests of customers and have led to appalling conduct that is contrary to law. Yet this misconduct has gone unpunished or the consequences have not met the seriousness of what has occurred and must be addressed. These hearings will also be an important opportunity to follow-up on unresolved issues from earlier hearings and to consider how best to ensure appalling behaviour is not repeated without inhibiting the banks' essential contribution to grease our economy.

In November 2016, the committee published its first report, which followed the first round of hearings in October 2016. The report contained 10 recommendations for reform of the banking sector, including calling for new legislation and other regulatory changes to improve the operation of the banking sector for Australian consumers. In its second report in April 2016, following its March hearings, the committee reaffirmed the 10 recommendations in its first report and made an additional recommendation that non-monetary default clauses be abolished for loans to small businesses. In its third report in December 2017, following its October round of hearings, the committee made four recommendations, including that the Australian Competition and Consumer Commission examine the major banks' repricing of interest-only mortgages in June 2017. The committee anticipates that the ACCC's analysis of this repricing will be included into the final report of its inquiry into residential mortgage products, which is due 19 November 2018.

I would also like to outline a number of matters related to the conduct of today's hearing. I refer members and witnesses to the House's resolution relating to procedures for dealing with witnesses at page 126, paragraph (9) of the House of Representatives' standing orders. The resolution provides that should a witness refuse to answer a question then they should be asked to state the grounds on which they object. The committee may either accept that objection or alternatively deliberate at a future private meeting on whether or not to insist upon an answer. If the committee does consider the matter in private, it may write to the witness with the outcome of the discussion. During the course of the hearing, witnesses may be asked to provide documents at a later stage. If a witness subsequently refuses to provide documents, the committee may meet in private to consider the matter. Under standing order 236 of the House of Representatives, the committee has the power to compel witnesses to produce documents where the committee has made a decision that the circumstances warrant such an order.

I am also mindful that today we have a parliamentary hearing on an important matter and a subject that draws strong emotions. One of the important principles of having a parliamentary hearing is to make sure it is held with decorum and respect between the witnesses and the parliamentary members who ask the questions. I recognise that there are NAB customers in the room today. I therefore encourage people to respectfully sit in silence while this hearing is conducted. I also encourage that, as there is a public hearing, the public is most welcome to attend. We try to conduct these in a civilised and respectful fashion. The best way to get answers to questions that are being asked is for the proceedings to be civilised and respectful. We would appreciate if witnesses' responses are heard in silence so that we can fully deliberate on what is said, we can make that sure we ask appropriate follow-up questions and we can have as free flowing a discussion between the witnesses and parliamentary members as possible.

We have representatives from the National Australia Bank present for today's hearing. I remind you that although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. Mr Thorburn, I welcome you and invite you to provide an opening statement.

Mr Thorburn : Thank you, Chair and members of the committee. Today I'm joined by David Gall, one of our chief customer officers and until recently our chief risk officer. We appreciate the opportunity to be here. As a nation, we are being confronted by some real challenges. The Australian economy is performing well, but there are sectors, such as retail, where things are particularly difficult. Consumers are less confident than they were and, as a result, are unlikely to continue spending at current rates. The global economy has also passed its peak and disruption to trade flows is now a distinct possibility. We must stay alert to these challenges and, at the same time, face the future with confidence. We also need our banks to remain strong so they can support Australian businesses and consumers. But strength is about more than just our balance sheet or profitability. It is also about being valued by customers for the services we provide. This leads to trust and here much more rebuilding needs to be done.

The royal commission has exposed issues in our bank and the industry that have been confronting and upsetting. I feel this deeply, having worked in our profession for more than three decades. In so many cases, we have not had the care and respect for our customers that we should have and, for that, I'm sorry. The commissioner's interim report outlined this in a fair and balanced way, and we will respond thoughtfully. However, we need to deal with the cause, not just the symptoms. If there was ever a need to step back, reflect and act differently, it is now.

In my view, there are at least four significant changes which have occurred inside banks over the last 30 years that have caused a drift. Firstly, the primary focus has shifted away from customers.

This has left our industry open to the challenge of profits before people. Ultimately the interests of our shareholders are the same as the interests of our customers. This is how a sustainable business is built. Secondly, there was the move from a long-term view to a short-term view. Given the risks and nature of our business, we should be planning over a five to 10 year horizon, not just one to two years. Thirdly, the move from base pay to greater incentive compensation has not been managed carefully enough, has rewarded the wrong behaviours and focused on product sales and short-term growth. We have taken actions in this area and will continue to make changes. Finally, banks have become bound by internal rules, policies, regulation and legacy systems, and this has led to inertia. As a result, we have lost the local connections we previously had with customers when our people were more empowered.

This drift away from what banking was when I first started has been real, and it will take time to return to the place we need to be at. At NAB, we're determined to make this happen. We are doing a number of things, including building our bank around a purpose, a vision and values that guide us to correct these changes, deliver exceptional service and earn the trust of our customers. We are holding our 3,000 leaders to account via leadership standards that require they have empathy, can perform, can imagine the future and can connect with people. We are implementing measures and incentives that focus on customers and the longer term. One hundred per cent of our people now have a balance scorecard with compulsory customer and risk measures, and 97 per cent of our people are on a standard group variable reward plan that is centrally managed and distributed annually, with increasing amounts of payment deferred. Finally, we have a long-term plan to invest in more reliable technology; reduce the number of products, fees and forms required; and remove layers of management so that decisions are made and acted on faster.

We must also constantly take a stand for our customers. We are listening, we do care and we are responding. We have taken a number of actions for customers in recent months, with more to come. These include: recognising the loyalty of our customers by keeping our standard variable home loan rate on hold for the time being, enabling our farming customers to offset their farm management deposits against their lending, ending the use of higher default interest rates for farmers in drought-declared areas after the commission heard from our customers Ken and Deborah Smith, thinking differently about our branch network and considering new options and partnerships to retain face-to-face banking. This has led us to reverse decisions to close our Narooma and Dungog branches in New South Wales and to put a moratorium on branch closures in drought-declared areas.

We have a long way to go to once more be the bank we want to be for our customers. We're more aware, more committed and more progressed on this journey than ever before. We will continue until it's achieved. We now look forward to your questions.

CHAIR: Thank you for your opening statement. You said that with three decades of experience you felt the consequences of the interim report. Could you elaborate on that. What do you mean by how you felt it?

Mr Thorburn : I read the interim report. As I said in my opening statement, I thought it was very thoughtful, considered and balanced, and I actually agree with what the commissioner is saying. I have felt through the year, as I've heard the cases through the rounds, upset, disappointed and aggrieved because we just haven't treated a number of our customers with the respect and care we should have.

CHAIR: Would you say you're ashamed of some of the conduct of the bank?

Mr Thorburn : Absolutely, yes.

CHAIR: One of the critical things—and it includes many of the people present and also who may be listening at home or anywhere in the country—is around issues of accountability and whether people who have engaged in misconduct within NAB or any of the other big four banks have been held accountable for their conduct. Has NAB done any analysis of the number of people who have engaged in misconduct to the point of facing some internal punitive measure and/or termination?

Mr Thorburn : We are doing a lot of work on this—and increasingly so—and that's absolutely right.

When we think of accountability, I think it comes in a number of different ways. I'll come to the termination point, but that is, of course, ultimate. I think accountability occurs when you sit down with a staff member and talk to them about what they should be delivering and how they are delivering it and you give them coaching and feedback if their conduct isn't quite right. You coach them and speak to them about that and hold them to account for that. It goes through to our end-of-year process when we wrap people's performance up and look at their performance across a number of categories. We have an assessment of their behaviour against our values. Often there are reductions to their variable pay as a result of their underperformance or perhaps not living up to the standards that we expect.

CHAIR: When you say 'reductions', do you mean off the maximum that can be achieved or is it just part of an assessment about what their variable pay can be and at what level it's set?

Mr Thorburn : We do this review with individuals and they can have reductions of 10 per cent, 20 per cent, right through to 100 per cent. It does depend on their performance and, in the case of behaviour, the materiality of how bad the behaviour was. This last year we have had over 1,200 people, as an example, inside the bank that have been really questioned about their adherence to our code of conduct inside the company. Those 1,200 got investigated centrally in all cases. These are allegations. Seven hundred of these had a reduction or some consequences—a reduction in their variable pay or consequences for themselves. Of the 700, over 300 either were terminated or have left as a result of the investigation. So we are doing a lot of these things. We just have to be more vigilant about it so that we have high standards and hold our people to account for them.

CHAIR: I'm presuming those are rounded numbers—1,200, 700 and 300?

Mr Thorburn : It's 1,215 and—

CHAIR: That's all right. I'm just clarifying. It would seem odd if they were perfectly rounded out at double zeros! I return to the question I asked before. I'm assuming the structure of people's salary packages is that they receive a base amount and then they have a variable amount. When you say 'a reduction', I presume that's off the maximum they can achieve and not off their base pay. Can you understand that the way that's framed raises a certain degree of scepticism about the extent to which the bank is holding people to account if they are just not reaching their maximum bonus?

Mr Thorburn : The way it works is we have 97 per cent of our people on a standard variable reward plan that is centrally administered. It's consistent across the company. Most people, yes, have a base pay and then they have a percentage of that as a potential bonus. But it is a potential bonus. It could be zero or it could be up to that level where it's set. That depends, then, on their performance as assessed against all their performance targets through the year.

CHAIR: Okay. I'm just trying to make the point that it seems—I won't say 'Newspeakish'—to suggest that they're getting a reduction when really there is a variability.

Mr Thorburn : Did I answer your question?

CHAIR: Yes, you answered the question. I'm just trying to get to the point. If you've had roughly 300 people who have been terminated as a consequence, 700 people who've gone through reductions in pay and 1,200 people who've broadly been investigated for behaviour inconsistent with the values, have you done an assessment of how many people may be at risk of criminal charges as a consequence of what comes out of the royal commission?

Mr Thorburn : I think what we do is that, if there's anybody who's committed a fraud or absolutely clear misconduct, they're terminated immediately, and files, in many cases, are handed straight to the police. So we absolutely do that. Some of the matters that are coming out of the royal commission are still in process, and, if there were criminal charges that came towards the bank, we would obviously have to assess them and work through them at the time. But, on the matters that are in front of the royal commission, yes, we have gone through, in every single case, an assessment of what happened, what went wrong, who's accountable and how we prevent it happening again.

CHAIR: Has anybody been terminated as a consequence of that assessment?

Mr Thorburn : Yes.

CHAIR: Within that time frame since the interim report or since the matter has been raised before the royal commission?

Mr Thorburn : On the matters that are before the royal commission, yes.

CHAIR: Are you expecting any further terminations? Could you give us a number?

Mr Thorburn : I think we just have to look at every case on its merits and obviously give fair and due process to the individual.

CHAIR: Sure, but is it under 10 that have been terminated?

Mr Thorburn : I'd have to take the exact number on notice. No, I think it would be more than that.

CHAIR: More than 10?

Mr Thorburn : Yes.

CHAIR: And you're expecting more, potentially, as a consequence of the royal commission? Have you done an assessment of that?

Mr Thorburn : As I say, we are looking at people's performance all the time, and for all the cases that are before the royal commission—which, of course, were known—we have done individual reviews in all those cases. David, you may be a bit closer to some of them as our former chief risk officer. You might want to add to my comments to the chair.

Mr Gall : Yes, we certainly are continuing to review those cases. Not all of them are completed yet. We're still working through remediation approaches and compensation with customers for some of the issues. What we do, though, is make sure that all aspects of the reporting that we do around everything from breaches to understanding control breakdowns et cetera are considered when assessing each individual's performance. If there have been significant breakdowns or if there's any concern around fraud et cetera, termination is absolutely a potential outcome.

CHAIR: Accountability is a critical part, I think, of what the public wants to see. In particular, one of the things we've heard about from the royal commission as well as elsewhere is the discrepancy between the high degree of accountability that can sometimes happen at the bottom of the bank and what happens at the top of the bank. Can you break down the components: out of those 1,200 people, how many are at executive level—or you can give a percentage—as opposed to being further down the bank?

Mr Thorburn : Just to be clear, the number I referred to, the 1,215, is for code of conduct investigations and breaches, as opposed to 'performance in your job' breaches. It's behaviour as opposed to delivery of certain things you require in your performance plan. What happens in a lot of cases is that people resign, because we talk to an individual and they elect to resign, potentially before they're terminated. Of course, people have the right to do that, so there are a lot of resignations that we have had in and through the bank over the last couple of years, which will be as a result of us investigating and managers talking to people and holding them to account. They will depart as a result of that.

CHAIR: Sure, but that wasn't my question, although I accept the point. For those numbers that you've provided, is there any breakdown between the executive level and the non-executive level of the bank?

Mr Thorburn : There will be, but I don't think there will be many in that group that will be very senior people, because it's behaviour and you expect that, when people get to very senior levels, they know the code of conduct and they live by it. That is normally the case, but a lot of senior people get held to account for their delivery against their performance plan, so they will have reductions in their variable reward as a result of nondelivery against their performance plan.

CHAIR: Again, I make the point that there's a difference with variable reward. But, accepting that and accepting that there will be a small number but obviously there have been some at the executive level, has anybody—whether through voluntary resignation or through termination—been provided with a payout outside of their ordinary entitlements around annual leave and the like?

Mr Thorburn : I don't think so. We do apply contractual terms quite rigorously. They're centrally administered by one central workplace relations team. So I doubt it and I would be confident in saying no.

CHAIR: I will play out a reasonable scenario: something's gone wrong and the bank confronts the problem by saying the most appropriate way is for you to resign—in traditional parlance a golden handshake—or take some sort of pay-out of an existing contract, even though there may have been a breach of that contract or the code of conduct or performance standards as a way of dealing with the matter, so the bank can move on. You're saying there are no examples of that?

Mr Thorburn : We talk to people and, if we find that they should be terminated, we would terminate them. That's point No. 1—

CHAIR: Sure, but I'm talking more about the resignation side.

Mr Thorburn : If they resign they would get what they're entitled to and no more.

CHAIR: Period?

Mr Gall : Yes.

Mr Gall : I can add to that. At the senior level, a number of executives will have deferred compensation—it is earned in previous years. If it's a serious act of malfeasance, they will lose that deferred equity as well. For executives who have left the organisation and still have deferred equity on foot, that gets periodically reviewed at future release dates and considered for any further action that needs to be taken based on what's occurred at the organisation.

CHAIR: So how would you say the royal commission has changed incentive structures—if it has—within the bank? You spoke specifically about the variable component of incentive performance; you kept referring to a reduction of the maximum that people can be paid out as a consequence. Have there been any other changes in terms of the incentive structures and payments within the bank to better align with customer outcomes rather than bank outcomes?

Mr Thorburn : Yes, there have. Since we've been coming here to this committee, we've progressively made changes. And the royal commission has really forced us to look at some of the issues to correct them further. The first thing is that, to qualify for any variable reward, all our staff are assessed against a balanced scorecard. There are four standard scorecards—customer, risk, financial, and people or leadership measures. Secondly, 97 per cent of our people are now on the standard plan whereby assessments and any payments are only made annually. Previously people were on quarterly plans or more regular payments. The third thing is the deferred component. More pay is being deferred for longer. In the case of senior people like David and I, any bonus now on our scheme is 40 per cent in cash and 60 per cent deferred for four years. And people are still subject to what we call 'malice'—if anything happened in the four years of risks that were known that have come out in that time, people can have that eliminated. Finally, we are now moving to, over the course of the next year—we are at 97 per cent today—having very, very few sales- or volume-related plans. That's been another big change as we've moved people on to the balanced scorecard with annual assessment where the financial path can only be one-quarter of their overall contribution.

CHAIR: I don't want to sound like a broken record but I don't feel like I've got a completely satisfactory answer around the breakdown and number of terminations in particular between the executive level and the branch level. Last week, when we had the CEOs of other banks, there was an acceptance that ultimately the buck stopped with the CEO. You would accept that?

Mr Thorburn : Yes, absolutely.

CHAIR: In terms of setting the tone and culture—from the board, to the CEO, to the whole governance of the bank—terminations where there is a problem at an executive level are a critical part of breeding a culture of accountability. So are you able to provide us with data on the number—we don't want the names—of terminations that have occurred at the executive level of the bank? You can take it on notice.

Mr Thorburn : I can take it on notice and give that to you. As I was saying earlier, there are very few because the accountability is being held as they go through the year and are assessed on their performance. If they had conduct or behaviour that was unacceptable, we would terminate people. But what's happening is that mistakes are being made that were not intended and people are absolutely being held to account for those, often through reductions in their variable reward.

CHAIR: You said in your opening statement that you believe there was an alignment between customer interest and shareholder interest. I completely agree with you. How do you assess that alignment to make sure that the structures within the bank are working towards both rather than just towards bank interests?

Mr Thorburn : In my opening statement I said the most important group we really serve are our customers. That was the case when I started in banking and I think there has been a drift on that point over the last 30 years. You need to have the customer at the centre of all your assessments, all your product development, all your conversations. In things like the purpose, the vision and the values of the company, which are very important markers, and in the way you train and develop leaders, customers need to be front and centre of that story. I think we've done a lot of work on that. Then, in assessing performance, you have to put customers at the centre. Customers are the first of the balanced scorecard assessments. You can't have financial being dominant—and it isn't. And then there are the values. The first value we have is passion for customers, and you have to be able to demonstrate how you're doing that. Ultimately if you look after your customers and serve them well—in our case, existing clients in particular—you build trust with them, you get loyalty and you grow your business. Financial performance happens but that's as a result of focusing on your customers.

CHAIR: One of the things we've heard throughout these hearings is that some CEOs have taken proactive steps to meet with aggrieved customers or bank victims—depending on how you want to put it. How many of those have you met with?

Mr Thorburn : There are a lot that I have received correspondence from that I've made sure somebody senior has spoken to and assessed. Over the last few years I have met quite a few. I met quite a number yesterday. I'm meeting quite a few after our session today.

CHAIR: Twenty?

Mr Thorburn : That sort of number, yes. I think it's very important because, in the end, it comes down to very emotional situations that have been longstanding, and I really feel for those customers.

CHAIR: One of the things that's been raised with me, including by constituents directly, is around challenges in getting small business lending at the moment—including specifically from NAB, but I'm not isolating you out. In fact, I had an exact example in only the past couple of days of where somebody who had the basis, I would have thought, to justifiably raise capital to buy a building to grow their business but had been declined. I know you can't comment on that individual case but do you think the royal commission and the ongoing scrutiny of the banks are harming lending for the small business sector?

Mr Thorburn : I don't think so. Separately, I'd be happy if you could refer that client to us.

CHAIR: I will.

Mr Thorburn : As Australia's largest business bank, we are continuing to lend. We are growing our market share in this area. We're growing at twice the rate of the other major banks in small business. We have more bankers in more places around Australia than any other bank. So I think we are extending credit to small businesses. We believe that is really important. I think the numbers support that. Also, we have pioneered a product caused QuickBiz, which is an unsecured lending facility for small businesses The two things that small businesses are concerned about when they come for lending, particularly if they're small and growing businesses, is, firstly, that they don't have physical security and, secondly, that they don't have three to five years of history. But a lot of the businesses are good, well-run, cash-flow businesses. So we are opening around one-third of our small business accounts now through this QuickBiz platform. We are really stepping into this space and supporting businesses where that is justified.

CHAIR: One of the frustrations raised by many people who have come to this hearing and previous ones is banks using their disproportionate weight legally to be able to stop a follow-through of complaints against the bank—simply because people don't have the financial resources to take a bank on. Would you describe the NAB as a model litigant?

Mr Thorburn : I'm not sure exactly what the definition of a model litigant is.

CHAIR: Would you describe the NAB as never abusing its weight or power or financial position to stop a legal claim against an individual customer?

Mr Thorburn : I certainly couldn't say that we've done that on every occasion. Obviously as bankers we look at certain contracts and clauses. I think there are cases where we have let that be the dominant piece as opposed to really dealing with the impact on people and helping them through it. In most cases we get it right but I'm absolutely certain that in some cases we have been more overbearing and more technical and more legal than we should have been, and that is something that I would like to step into and address as we go forward.

CHAIR: Last week we had a CEO come here and say they would be prepared to develop and practice against a standard of being essentially a model litigant—the broad definition I have provided. So NAB would be prepared to go down that path as well?

Mr Thorburn : Absolutely.

Mr THISTLETHWAITE: Mr Thorburn, when you appeared before the committee last year, I asked you a question regarding the need for a royal commission. Your response was: 'What I have said before is what I say here today. We do not believe a royal commission is necessary because the industry is well governed, well regulated and actually addressing the issues that need to be addressed.' Do you still hold that view?

Mr Thorburn : No, I don't.

Mr THISTLETHWAITE: Why?

Mr Thorburn : Because I got it wrong.

Mr THISTLETHWAITE: Thank you. Misconduct has been uncovered in the royal commission. There have been between 9,000 and 10,000 submissions. A lot of those are from bank victims, some of whom are here today. The concern is that they're not going to be able to have their cases heard through this process. What do you say to those people who are still feeling aggrieved from their dealings with banks but haven't had the opportunity to put their case before the royal commission?

Mr Thorburn : Having met with some of our customers yesterday, I really felt their pain. It's changed the course of their lives. They're very complex cases. They go back a long period of time. I have undertaken to have those cases, and the ones I have seen today, reviewed and to come back to them. In the case of the National Australia Bank, I would encourage anybody who doesn't feel that they have been properly heard to come to me directly. Many of the cases you have referred to will have been around for five, 10, maybe 20 years. They'll have been through various mediations—maybe FOS or some other farm debt mediation. Our customers are still aggrieved that they either haven't been heard—which I think is an important part of it and is what I saw yesterday—or haven't got the right answer. Those two things can be a little different. I would encourage people to come forward to me so that we can have them reviewed again. That's definitely what I'd commit to do.

Mr THISTLETHWAITE: Okay. You and the other CEOs have mentioned restoring trust in the industry. I think at some point in time we all want to get to a position where we think the industry is well regulated, that those who are running the industry are doing so in the interest of customers and that integrity is restored. That's what we all want out of a banking system really. If, at the end of this royal commission process, there are still thousands of customers saying, 'You've had your royal commission but I'm still angry and my case hasn't been dealt with,' how are we going to restore that trust?

Mr Thorburn : I understand. There are two points I'd make, though. Firstly, the royal commission's terms of reference were set by the government and it was made very clear up-front that that wasn't going to be the purpose of it. Secondly, I come back to my offer that, if there are National Australia Bank customers, I would be happy for them to contact me directly on andrew.thorburn@nab.com.au. If there are any of our customers, like those I saw yesterday, who still feel aggrieved, I would like to have them re-looked at.

Mr THISTLETHWAITE: Do you believe that the royal commission's time should be extended by the government and a process put in place for them to look at these issues?

Mr Thorburn : That's a decision for the commissioner. The government has said that, if he requested additional time, he probably would be granted it—and that's the appropriate process.

Mr THISTLETHWAITE: Can I put to you that the problem with what you've said goes back to the first question that I asked you. When you appeared before us last year you said that the industry was well governed and well regulated and was addressing the issues that are being addressed. We in the Labor Party had a view that that wasn't the case. The government was saying: 'No, it's okay. Everything's going well. We're dealing with the issues.' The royal commission has since really blown that claim out of the water and uncovered what is going on, and what we've suspected has been going on for quite some time. How can any of your customers and the Australian public trust you or any of the other CEOs that are running these organisations if what you said before this committee in the past is completely wrong, in your words?

Mr Thorburn : Let me unpack that. On the first point, the royal commission has caused me, personally, to look at these cases, to go through the observation of the rounds and to speak to customers. It has caused me to step back and ask some questions of myself that I hadn't asked as much as I should have. I mean, I have been the CEO of a bank, in one form or another, for 10 years. This has caused me to be confronted by: 'Why do I do what I do? What is the purpose of our organisation?' Our purpose is to steward our customers and to help them and gain their trust. That's what it was always about.

I looked at some of these factors, like our scorecards having too much focus on financial performance, our bonus schemes being too leveraged to financial performance, our risk controls not investing enough to prevent these issues or to pick them up quick enough. When I looked at the layers of management and complexity we had, that's where I stepped back. It was even more personal because my great-grandfather was the manager of the National Bank branch, would you believe, in Casterton in country Victoria in 1921. We closed that branch. All of a sudden, it added to my feeling, 'Wow, this is getting really personal, step back from this now.'

Mr Thistlethwaite, I know I'm changing my position here, because I've really been thinking about these things. I want to acknowledge that I have changed my position and say that, in terms of the royal commission, I got it wrong. I think the bits that I said were right in terms of regulation and governance, but what I didn't realise was that underneath it there was a drift away from what we should have been to what we've become. Now we're trying to straighten that up.

The way we're straightening it up is that, as I said in my opening statement, our purpose and our vision, approved by our board, is to put customers at the centre of all we do. If you go to every single scorecard of every single employee of the National Australia Bank today, it will have customers at the top of the measure. It will have financials no more than a third. We've changed the bonus schemes dramatically. We've had issues with sales incentive schemes and being paid quarterly for volumes and sales. That was not right; I acknowledge that. We drifted over time; it was incremental. I explain it like drift fishing—when you fish without an anchor and you move and you don't realise how far you've moved. I think we're correcting these things, and that's why we can earn trust.

Finally, I think at our bank we've tried to take a stand for our customers. We're holding our standard variable rate for longer, when all other banks have raised them, to reward our existing customers. We're reversing the decision on Dungog and on Narooma. The story of Ken and Deborah Smith in that round at the royal commission, where we charged default interest—I said, 'How do we justify that, when people are going through it?' We changed it. We said no. We're not closing branches in drought-affected areas. There are 130 at the moment that have a moratorium. I think the way we earn this back is to keep making many more decisions like that. They show we're not just hearing, but we're acting and making different decisions.

Mr THISTLETHWAITE: You mentioned earlier that a lot of the victims' matters are complex cases. That's something that I'd certainly agree with you on. In terms of bodies that are able to look into those matters, what's really been highlighted for me in the royal commission is that it appears that many of the regulatory bodies haven't been doing a good job of looking into those matters and getting justice for people. Certainly, this committee simply doesn't have the resources to delve into the details of some of these matters. It appears that the only body that's been able to do this in the course of the last decade has been the royal commission. For there to have been thousands of cases but for them to hear from only 27—I go back to the point that I made earlier: how are we going to move on and restore trust if people feel that no body exists, aside from this royal commission, that can delve into the details of these matters in an adequate fashion and potentially get them justice?

Mr Thorburn : Well, I'm not sure that I can add more to what I've said. I understand your question. It wasn't in the royal commission terms, and that's for the government and the commissioner to determine, if they want to make it that way. A lot of these cases that I've seen are not just complex; they're long-dated and they have been through various forms of mediation, with some independent bodies, and still not reached a conclusion that our customers are happy with. I think with some of this we just have to talk with people and acknowledge their grief. But I think I'm going to be asking that a number of the ones that I saw yesterday be relooked at. Also, I think the more standard retail complaints are being handled. It's when you get into business and farming, which involve larger amounts—there are multiple entities—that it does get very complex, and you need some capability, if you're going to have an independent mediator, who can understand that and handle them. That's where it gets a bit more difficult. I'm certainly happy to keep turning my mind to how we help people so that we can move forward, because, as you said, it's in all our interests to do so.

Mr THISTLETHWAITE: You mentioned earlier the conflict, I suppose you could call it, between acting in the customers' interests and acting in the shareholders' interests. APRA chairman Wayne Byres said in respect of shareholder metrics, including return on equity, that using them as proxies for executive performance isn't appropriate and has to change. Is that something you agree with?

Mr Thorburn : I think in any business the financial performance and health of the business is important. It funds paying wages and any variable reward to people. So, I think that's important. It's about where it comes in the priority. You can't have an unprofitable bank, or even a marginally profitable bank, because that's not going to be good for all the employees, all the customers and all the shareholders. But you've got to start with why we exist. We exist to serve our customers, to earn their trust, to help steward them through big decisions in their lives. That is the purpose of the bank. Sure, employees help do that, and shareholders get the benefit of that. I'm saying that you've got to get your priorities right. I think we're re-orienting, turning our mind to our customers as the most critical asset we have, and we've got to nurture that and build that trust over time, particularly where we've got to. But I don't think that not having financial measures of some description would be a sensible or healthy thing either. It needs a balance.

Mr THISTLETHWAITE: There have been numerous international comparisons that indicate that the return on equity for Australian banks is the highest in the world and has consistently been so for the last decade. Do you think that evidence demonstrates that perhaps the balance has been wrong in Australia for some years and that the focus on shareholder value has trumped customer satisfaction and customer issues for too long?

Mr Thorburn : On your latter point, I'm actually acknowledging that in my opening statement. I'm saying that bit—we have to reorientate. So, I'm sort of agreeing with your final point. I don't entirely agree with the data you're using to support the point, which is the return on capital, the return on equity of Australian banks. It has fallen quite significantly in the last five years. If you look at Canadian banks, it is significantly higher than ours—probably the UK banks and the US banks now. Our cost of capital is 10½ or 11 per cent. If you look at the return on equity for the Australian banks, it's 13 or 14. It's certainly not in excess by a long margin above the cost of capital. And that's important, because we need equity holders to keep supporting the bank. But I agree with your end point.

Mr THISTLETHWAITE: I'll move on. I'm running out of time. You mentioned earlier the changes to remuneration practices and structures. I just want to ask you some questions about balanced scorecards. When I asked the other banks last week to outline how these work, it appeared to me that they're all very similar in all the big four banks, and some of the others refer to them as gate openers—that once you've achieved a certain amount of competency with respect to certain indicators, like customer satisfaction, work practices, occupational health and safety and the like, you're then eligible for bonuses linked to performance, including some financial measures. Is that the way it works at NAB?

Mr Thorburn : No. Our scorecard has four categories in most cases: customer, risk, financial measures of varying types, depending on the job, and then often a people or team measure. Then on top of that we have our values and conduct that must be assessed. The only one that I would say is a gate, to use your term, is the conduct one. In other words, if you don't behave the right way you'll get nothing; you might even be terminated. So, I think it is a true balanced scorecard. You've got to be able to achieve in every category.

Mr THISTLETHWAITE: Do the financial measures include referrals and connections like that?

Mr Thorburn : For frontline people?

Mr THISTLETHWAITE: Yes.

Mr Thorburn : I think we've made really big steps here. I looked at them the other day. I went through a random sample of 12 scorecards that I called for and went through them myself. If you look at one of our tellers, there are, under their financial one, a couple of measures. It doesn't say 'referrals', so that's good, because I think that's an old sort of description that we need to get rid of. But we do talk about customer conversations and connections, and financial needs met. So, we do have something in our tellers' scorecard, which I don't think's inappropriate. We need to keep refining it. Our tellers are really important. They are our front line. They talk to 100 to 200 customers a day. If you get that conversation right, you will be uncovering opportunities and needs that those customers have, and I think it is our responsibility to help those customers. How that happens is the key. If you're motivated to do something to earn something, that's not right. If you're motivated to help a customer so that we can help them get the right products and services, that is a good thing.

Mr THISTLETHWAITE: I'm looking at a document here, 'Delivering the signature customer experience: performance plans referral guide' and it's got on this one 'My targets'. It includes eight customer connections, including two lending referrals. So, it appears that those words are still used in—

Mr Thorburn : Yes. That's not the actual scorecard. The scorecard is the key.

Mr THISTLETHWAITE: That's a document that explains how the scorecard works.

Mr Thorburn : But I would concede, or say, that where we want to move to is to where I said, and I think we're getting there. But where you've had a bank that for 10 years—probably more—has been focused on that sort of thinking, it's going to take a couple of years to move to a safer and better spot. I absolutely understand that where we've got 7,000 people in retail branches it's going to take some time to make that change. But we're absolutely underway, and I think the message is progressively getting through.

Mr THISTLETHWAITE: Okay. There was some evidence presented in the royal commission about the use of introducers by NAB, and introducer fees. In one case an introducer was paid $488,000 in fees for one year for steering business to the bank. Some of the evidence was quite alarming. One introducer issued customers with false pay slips to ensure that they complied with loan requirements, the commission was told. So, the royal commission uncovered these practices. Do you think a fee of $480,000 a year for an introducer is appropriate?

Mr Thorburn : No.

Mr THISTLETHWAITE: Well, why did that occur? How did that slip through the—

Mr Thorburn : I think that's a fair challenge. This was a problem. I mean, we started off with good intent, in the sense that we're in local communities all around Australia—accountants, solicitors, football clubs, netball clubs and so on. We encourage them. If they referred business to us, we would pay them a fee; we would go back to them for that referral. So, it started like that, but it grew too fast. It goes back to my earlier point: there was too much focus on volumes and growth and we didn't have the controls in place. So, that's absolutely right. And we've overhauled that dramatically; we've gone from 8,000 introducers to just over 1,000—far better controls and far more targeted and far better contracts. So, I think we've really addressed the issue. But I must say, in the case of the ones that went to the royal commission, people committed fraud. This wasn't about breaking policies or doing the wrong thing; this was fraud from third parties outside the bank and from some of our staff. When we found out about that and investigated it, we terminated all our staff and handed all the files to the police. Those are two separate points about how we've overhauled the program and how some people abused the program.

Mr THISTLETHWAITE: Are those fees that are paid disclosed to the client—the introducers fees?

Mr Thorburn : Yes, they should be. That's why we've got far better controls in place now—because that should be the case.

Mr THISTLETHWAITE: There's a big difference between 'it is' and 'it should be'. Is it occurring at the moment?

Mr Thorburn : The reset Introducer Program, which I am personally going to keep monitoring to make sure that it does deliver what it should, has a requirement that that is disclosed. I can't be confident in saying it was in previous cases. We've tightened it up a lot.

Mr THISTLETHWAITE: On another subject—I'm not referring to introducers here but mortgage brokers and their activities, which has been raised as an issue in the royal commission. The commission has floated the idea of fees for service and extending the FOFA reforms to that particular industry. What's your view on that? You'll no doubt be asked to give a view in the royal commission.

Mr Thorburn : I think this is a big one, because brokers and small businesses are throughout Australia. They're providing over 50 per cent of the flow of mortgages. Increasingly, they're becoming more licensed and more professional. But I do think, when the Sedgwick report was done, there was a conversation about: should they be paid an up-front fee for a simple and a complex loan, and should we make it clearer, when we pay a trail to them—obviously that's disclosed—what they need to do for that? I think those things, right now, are under really serious investigation by our bank and also by the industry itself. We haven't got to the end of that process, but I think, in short, there needs to be some changes in those areas.

Mr THISTLETHWAITE: What's the up-front commission and the trail that you pay?

Mr Thorburn : Overall, we pay 0.65 and, I think, 0.25 as the trail, in that order.

Mr EVANS: Thank you, Mr Thorburn and Mr Gall, for being here. I might start, actually, with some follow-up questions to your answers just before about the customers who are out there, including some we know in this room, who believe very strongly that they're not being heard by their bank, including your bank. You made the offer—an invitation—for any customers who feel that way to approach you, and you provided what I think was your personal email address just before. Is that right?

Mr Thorburn : That is correct.

Mr EVANS: Let's talk about customers who are thinking about contacting you. What should they expect? What will they experience from here?

Mr Thorburn : What they should expect from me and from our company is a prompt response and a review within a reasonable period of time to suggest some next steps. Often, that will probably involve suggesting some mediation, but I do have to be mindful of the volume. As I said in answering Mr Thistlethwaite's question, a lot of these ones in question are much more complex and much more long dated. They're not simple, otherwise they probably would have been resolved, or I could resolve them quite quickly. We're going to have to work out who's got the capability. Often, it won't just be in the bank. We need someone independent of the bank and our client to bring us together. I don't know the numbers we're talking about, but that's the sort of process I'm thinking of.

Mr EVANS: You don't know the numbers at all? You have no sense of the numbers or do you have some sense?

Mr Thorburn : Of the grievances?

Mr EVANS: Yes.

Mr Thorburn : I don't know our share of the 9,000 or the—

Mr EVANS: Maybe I should put it this way—

Mr Thorburn : I want to help customers who remain aggrieved if we haven't given them satisfaction and a good process.

Mr EVANS: How about I put it this way: has NAB dedicated any specific resources or processes to dealing with that case load?

Mr Thorburn : Yes, we have a centralised team which is well-resourced with the right people. Those people assess complaints and try to come to a conclusion. They may then refer them on to the financial ombudsman scheme. We also have an independent customer advocate—a person who would then be a reviewer, particularly of retail type complaints. The challenges really come into the business space, where they are more complex. That's where you need a different sort of capability. We have people inside the bank, but probably not enough for the cases in question.

Mr EVANS: Can I ask you to be more specific about, say, the number of people involved in that team or those capabilities?

Mr Thorburn : In the customer complaint and resolution team and maybe the NAB Assist team, we'd be talking dozens and dozens—probably more a hundred?

Mr Gall : Closer to 100 to 150.

Mr Thorburn : Over 100 people.

Mr EVANS: The efforts of those 100 to 150 people are presumably split between either business-as-usual activities, and maybe some proactive work about changing or updating your remediation processes; and reactive work looking at that case load?

Mr Thorburn : Yes, I think it would be both. We have a lot more resources going into remediating, where we have made mistakes and we're compensating customers, particularly in areas like our wealth advice area. That's separate to that.

Mr EVANS: You're saying that the majority of those 100 to 150 people, and all of the resources at their disposal, are focused on the remediation case load?

Mr Thorburn : No, they're focused on helping existing customers who have got problems, are in distress and have got complaints with the bank. We've got quite a few more, because of the significance of the numbers and the complexity, that we're having to remediate as well. That's separate.

Mr EVANS: Another bank gave us an indication that they'd made a provision for future remediation. Has NAB made such a provision?

Mr Thorburn : Yes, we have. We announced that on Tuesday.

Mr EVANS: What was the quantum?

Mr Thorburn : It was $314 million after tax.

Mr EVANS: That's looking forwards. Do you have any estimates of how much remediation has been provided over recent years?

Mr Thorburn : I think, apples for apples, the number we've already provided is about $200 million.

Mr EVANS: So it sounds like we're talking about a total number that would be close to or in excess of half a billion dollars?

Mr Thorburn : Yes.

Mr EVANS: You mentioned in your opening comments the intersection of customer interests, shareholder interests and so on. Thinking broadly about not just the royal commission but events over the past year or so, how do your investors feel about this?

Mr Thorburn : Whilst I think our investors think the core of the bank—in terms of its balance sheet, its liquidity, its asset quality and its growth in business—is good, I think they would be concerned about the increasing amounts and how much that could be. My view is that it needs to be what it is. It needs to be what it needs to be to fix the situation. The amounts that we've paid and are going to pay are for services that we provided that the customer hasn't received the benefit of. So, we've, sort of, overcharged and we've got to give that back.

Mr EVANS: Are there any trends or breakdowns that you could provide in terms of the $200 million or more of remediation you've paid in recent years? What would the main components be?

Mr Thorburn : The main components are in our wealth business and CRI, customer response initiative, which were for poor financial advice to customers. Then we have our planned service fee compensation and our adviser service fee. They are the main ones.

Mr EVANS: Okay. So, broadly, dodgy financial advice or fees for advice not given?

Mr Thorburn : Yes.

Mr EVANS: In terms of accountability and the government's Banking Executive Accountability Regime, the BEAR—last time you were in front of this committee, you told us that you accept the

BEAR and you think that it's a very important process. Can I ask you to tell us very specifically what NAB has done in response to the BEAR?

Mr Thorburn : I would say it's more than helpful. It has been really good at helping us understand clarity for accountability for executives. I have one dedicated senior executive coordinating the whole project so that not only do we submit it to APRA on time, which we've done—there are 22 people, directors and executives, who have been registered with APRA as part of that—but also we have gone through a process of being very clear in every job and made sure that we've brought it to our executive committee to look at overlaps. We've run some scenarios. We've run scenarios to say: 'What happens if this happens? Who's accountable for this?' That's been useful, because we see: 'Actually, I thought that was me. No, actually, that's more you.' It's helped us refine it. It has been an active process. Finally, our new financial year starts on 1 October. In the first week of the new financial year, I sat down with each of our executives who report to me, gave them their scorecard for the year and gave them their BEAR statement. In that conversation, I asked them how they would be able to assure me that they could meet those BEAR accountabilities and how they were cascading those principles down through their businesses.

Mr EVANS: For one of those 22 people, when they look at their BEAR statement, as you call it, what does that look like? What does it mean day in, day out; week in, week out for them?

Mr Thorburn : I think they should be able to see that the work they're doing, the meetings they're going to, the conversations they're having and the decisions they're making—they should be able to see a direct link with, 'That's my accountability.' There's a link with that, so it's very relevant to them day to day. I mean, they're four or five pages long. There's quite a bit of detail. It makes it very clear to them what they're accountable for.

Mr EVANS: When you performed that exercise, which sounds like a bit of an accountability mapping exercise inside NAB, what were the most significant gaps or ambiguities that you found?

Mr Thorburn : David can answer this. He was chief risk officer at the time helping oversee it. There were things like responsible lending, like AML or financial crime more generally. I would say there were two or three where we really teased out, 'Who is accountable for this?' I think that really helped us.

Mr Gall : I think those are two good examples. Typically, it's where the service or the process that we're doing crosses multiple divisions across the organisation. That might be multiple customer divisions, but it might also be end-to-end, so making sure that that accountability is understood right through from the customer-facing to the operations and technology areas.

Mr EVANS: You would characterise the previous issues more as duplication or ambiguity rather than entire gaps—that is, executives pointing at each other and saying, 'They were the ones responsible, not me'?

Mr Thorburn : I think what this process has done is made it very clear who is accountable for what. I think we've reduced the ambiguity and gaps as much as we can, given that it has just come in. We will be reviewing this regularly, probably on a quarterly basis. I'll be doing the same thing as I did at the beginning of the month.

Mr EVANS: Of those 22 people that are caught by the BEAR in NAB, does one of them have ultimate responsibility or oversight for the remediation?

Mr Thorburn : Yes. Absolutely.

Mr EVANS: I'll move now, if I can, to small-business lending practices. NAB has made a number of commitments recently, including to this committee, to the Small Business and Family Enterprise Ombudsman, to ASIC and so on, around changing some practices when it comes to small-business lending—for instance, unfair contract terms being removed and non-monetary default clauses being removed from small-business products. Have you met all of the commitments that you've made to change small-business lending practices?

Mr Thorburn : Yes, we have.

Mr EVANS: You're very confident of that?

Mr Thorburn : Yes.

Mr EVANS: Very good. I'm pleased. Thank you. That's the clearest answer I've got from any of the majors here in these hearings. I have a couple of follow-up questions to the Chair's questions about the availability of finance for small business. I think you told the Chair in an earlier answer that your small-business lending is growing. You said that it was at a rate twice that of the other banks. What's the actual number? What's the growth rate?

Mr Thorburn : I think it's four or five per cent per annum.

Mr Thorburn : Your lending to small business is growing by four or five per cent per annum, and the other banks' is more like two?

Mr Thorburn : Yes. I think having a thriving small-business sector in Australia is crucial in terms of job creation. They've gone through a period over the last ten years where that number was negative. There was negative credit growth, and it gradually stabilised. Now we're seeing opportunities. That's the rate at which we're growing our small-business lending.

Mr EVANS: When you talked about how you're growing small-business lending, you spoke about adopting new technologies to make it easier for small businesses to borrow. That topic of new technology is an interesting one that we've picked up here in previous hearings. There are, out there in the banking landscape, new technologies and processes which your industry is trying to adopt that should assist customers to compare products to potentially switch banks. When you think about those changes, do you see making it easier for customers to compare products and switch banks to be a threat or an opportunity for NAB?

Mr Thorburn : I think that's an opportunity.

Mr EVANS: There are a number of commentators out there, including the Governor of the Reserve Bank, who've criticised the major banks for being tardy when it comes to adopting new technologies and working together on initiatives like the New Payments Platform. What do you say to those criticisms, if you see those new technologies as an opportunity?

Mr Thorburn : Yes, I did note that I received correspondence from the governor, which I think he sent to all participants, to say: the New Payments Platform, we need faster progress. I think we have committed a lot of resources and I don't believe that we're a laggard in that at all, in terms of the New Payments Platform. I think, if you believe in your organisation and its capability and its ability to adapt and its skills—and we're investing more in that than ever before—you should be willing to take on all comers and you should lead change. I think, if you look at, say, open data—our early work on our comprehensive credit reporting, some of the equity investments we've made through our ventures fund to learn, some of the investment we're now putting into data—that's why I say it's an opportunity, because I think we're getting the capability to be able to create further growth in our business as a result of these things happening.

Mr EVANS: So you don't believe that the RBA governor's criticisms or the criticisms of other commentators apply to NAB?

Mr Thorburn : I think the governor's, if I recall, were about the New Payments Platform specifically. I did review to check that we weren't the laggard and I was assured we're not, and I actually had a conversation; we talked a wee bit about that when I saw him last. But my broader point is around, with the New Payments Platform, the incredible opportunities with cloud, with data, with the open data regime, with comprehensive credit point. That, I think, presents a real opportunity for the bank, given our knowledge of customers and our use of data, to actually extend credit and grow our business.

Mr EVANS: So you're committed to the process of open banking?

Mr Thorburn : Absolutely.

Mr EVANS: One last question, then; I think I've run out of time. What are your current customer-switching rates?

Mr Thorburn : It depends on the product. I don't have them to hand. I can take that on notice.

Mr EVANS: I'm happy for you to take them on notice.

Mr Thorburn : Do you mean customers that we're winning and losing?

Mr EVANS: Correct.

Mr Thorburn : We could probably get that for you. It'll differ by product. But our focus is on our existing clients and holding onto them and building our loyalty and retention. That's where our focus is. I hope that will improve over time.

Mr EVANS: Thanks, Mr Thorburn. I'll put further questions on notice.

Mr KEOGH: Thank you, Mr Thorburn and Mr Gall, for coming along today. Mr Thorburn, can you give me a brief outline of what your understanding is of the impact of the misconduct that NAB has inflicted upon customers?

Mr Thorburn : The obvious impact is on customers. Now, some customers have lost trust in us because we said we'd do something and we didn't. That, for a banker, where it's based on trust, is the most terrible thing. Second, it has affected our staff, because we've got 33,000 staff. I talk with them a lot and I think they feel really disappointed. I must say that most of our people are doing the right thing—wanting to serve clients—and are very resilient. So I think they're impacted. Finally, I would say our shareholders are impacted too, because what they want to see is a bank that invests in customer trust and loyalty, that builds a long-term, sustainable business and that invests consistently over time so that they can be assured that the company they're investing in not only has a sound foundation and has growth prospects but is doing everything that that bank should do to build trust and meet regulations. So I think that'll be the impact on them too.

Mr KEOGH: You spoke about the impact on customers being around trust. Are there other impacts on the customers?

Mr Thorburn : Yes, absolutely. I think there will be the emotional impact, particularly in cases where we have taken too long, where we have not been clear, where we have 'legaled' it. They will be very frustrated and have grief around that, because they will just feel helpless that they can't get through, that nobody is listening and we just send them another legal letter. That clearly has had an impact on people, and I understand that.

Mr KEOGH: I think there are a lot of people who agree that those impacts are real. Do you think there's a broader impact for the nation when customers have to suffer those impacts on the scale that we've seen uncovered through the course of this royal commission?

Mr Thorburn : Yes, absolutely. It's been a particularly difficult and shameful year for that, really, so we've got to earn our way back through it. I don't want to, in any way, not emphasise what I just said, but I would also say that of, our 33,000 people today, most of them are doing absolutely the right thing, serving customers well and have integrity in what they do. What we've had is a case of two things. Firstly, we had some who did not do that. It was a vast minority, but they have had a tremendous impact on our reputation—the few on the many. Secondly, in a lot of cases, we didn't intend for this to happen, it was not our intention to do what we did. But what we didn't do was have proper controls and execute it well and, when we found it, raise it and fix it and compensate people fast enough. That's absolutely what we didn't do. But we didn't intend to do what happened.

Mr KEOGH: The interim report from the royal commission stated that NAB acknowledged misconduct concerning the charging of adviser service fees between 2008 and 2015 and of planned service fees between September 2012 and January 2017. In circumstances where no adviser had been allocated to the client, NAB told the commission that as of January this year it had paid or agreed to pay approximately $6.6 million in compensation to more than 25,000 clients and another approximately $35 million in compensation to more than 220,000 clients affected by the misconduct concerning the charging of adviser service fees or planned service fees. At a technical level, my first question is: have all of those customers affected by that, some 245,000 customers, been informed that they have been overcharged or inappropriately or unlawfully charged a fee?

Mr Gall : In terms of our planned service fee the answer is yes. Most of those customers have had that fee reimbursed now, and we expect to have all of them—

Mr KEOGH: Of those that haven't had it reimbursed, have they at least been informed that they have some form of compensation coming to them?

Mr Gall : I believe so. However, I will confirm that for you.

Mr KEOGH: If you could.

Mr Gall : That's for planned service fees. For adviser service fees, that is still being worked through at the moment. So I would say that there would be a number with adviser service fees that haven't yet been informed. However, we expect to have a significant amount of compensation on those customers paid by Christmas as well.

Mr KEOGH: When will all of them be paid?

Mr Gall : I'm unable to answer that yet, but my expectation would be that we're going to be into 2019.

Mr KEOGH: I don't want chapter and verse, but why are there still delays in even having an idea of when you might be able to pay?

Mr Gall : It's a matter of actually working through them. The important thing for us it that we get compensation—

Mr KEOGH: I get that you are working through them, but is that because there are technical difficulties in your systems? Is it because some of them have literally passed away and you've got to find a deceased estate to now make that compensation to? Are there particular reasons?

Mr Thorburn : The reason is the complexity in getting access to data and systems, because these go back five, seven, eight or 10 years. We want to get this done as quickly as we can. I think we will have made a lot of progress by the end of the year. I think the amount that we'll have done by the end of the year will be about $130 million. I think we want to complete the rest next year, and as quickly as we can. The setting up of this customer remediation group that we've done centrally, and the provision that we made on Tuesday, means that we can push into it just as quickly as we can.

Mr KEOGH: I do feel that there is a bit of a sense from the public at large—not just your customers but, certainly, including your customers—that, even when these things have come out through the royal commission or other investigations, there's a bit of fanfare about how terrible the bank is and about compensation and then, there's a thud in expectation as people wait. Firstly, they don't even know if they're people that are deserving of compensation and then they are trying to get their hands on that money.

Mr Thorburn : I acknowledge that we've taken too long to find it and fix it. Today, as I sit here, I feel we've resourced it and made the financial provision to be able to handle that, Mr Keogh, as quickly as we can. We've still got a lot of complexity to work through, but we are looking at $500 million that we've provided in total for this. We've set up a central customer remediation, and we'll work through it absolutely as quickly as we can to get it done.

Mr KEOGH: Mr Gall, the report also went on to say:

NAB also told the Commission that it was investigating further circumstances where fees were charged to clients but the relevant services may not have been provided.

Is it your expectation that there will be a similar time frame—hopefully by sometime next year, or, even more hopefully, early next year—in which all of those matters will be identified and customers informed and payments made?

Mr Gall : Mr Keogh, it's still on the same issues. As Andrew said, we've set up internally and resourced internally to find the impacted customers as quickly as possible and ensure that they're refunded.

Mr Thorburn : I think they're the same two issues. It's adviser service fees and planned service fees. They're the ones in question.

Mr KEOGH: As you mentioned, you've now created this central group within the bank to process these compensation payments. Some of the amounts that have been overcharged to customers or that customers have been left without, when viewed in the whole prism, may be small but, for those customers, can be a significant amount. Even when they're a small amount, they're the difference between whether they keep or lose their house. We have instances of that. So, in looking at the compensation and remediation that's going to be made to these customers, are you looking purely at the dollars plus interest or are you looking at the broader impact that the conduct of the bank has had on, at the very least, the financial footing of those customers, let alone, as you mention, Mr Thorburn, the mental impact that it has had on those customers?

Mr Thorburn : I think it's a good question. I think in the case of adviser service fees and planned service fees, because of the nature of those products—they're savings related products for superannuation, primarily, in the case of planned service fees—I don't think those cases are likely to be where we've put people at risk of losing their house. But I want to take it more broadly, because I think there will be cases where we've done some things that—

Mr KEOGH: You've said to the royal commission, as I just read out, there are other matters where there has been overcharging of other—

Mr Thorburn : What we've done, where there are loans involved, is endeavoured to put the customer back in the original position, so that financially they were not disadvantaged. In the case of the adviser service fee, we've given extra compensation to customers to get additional independent advice separate to the bank. In terms of this point around how we assess the non-financial impact, that is actually in our policies, but I don't think we have a really strict and consistent way of defining it and applying it. I do want us to take that forward and look at how we can be more specific around that.

Mr KEOGH: Would you have any examples you're able to provide us with, either now or on notice, of where the bank has provided a broader degree of compensation or remediation to a customer to compensate for mental health impacts or broader financial impacts that have been suffered because of this sort of action?

Mr Thorburn : We could take that on notice. I certainly think it's something that I want to pursue. I think it's very real. I'm familiar with some individual ad hoc cases where we've done that, but I do think they've been maybe piecemeal, as opposed to a system-wide application, and that's what I—

Mr KEOGH: You said you're familiar with some ad hoc cases where it has occurred, and I think, by using the phrase 'ad hoc' and by the rest of your answer, you're acknowledging that that's been a good outcome but it's not because of a system in the bank. You don't need to provide the names, necessarily, but are you able to provide us with an example of that ad hoc, broader compensation the bank has provided?

Mr Thorburn : In terms of the cases I've seen, they usually involve much larger amounts, they go over long periods of time and there are multiple properties, usually farms or businesses. In some cases, if it involves a couple, one may have subsequently passed away and there are other people advising them, so it's very complex. What happens is we come to a financial settlement, but I think there are two things. One—and I think this is really important, but it won't sound as impactful as it really is—is just an acknowledgement from people like myself to them, to say: 'I'm sorry, we didn't do this well enough. We didn't handle this well, and I just want you to know that.' But the compensation does include an additional amount for the emotional grief they've been through. It's not a specific process that's separate to that, but I do think we try to include that to be a bit more generous to cover that.

Mr KEOGH: If you can provide in writing to the committee one or two worked examples, that would be quite useful.

Mr Thorburn : Yes.

Mr KEOGH: Do you have an idea of the number of customers that have been affected by NAB's conduct that has either been misconduct or—to use the phrase that I think the royal commission used—has 'fallen short of community expectations', that have been the subject of the royal commission?

Mr Thorburn : So, the ones I'm familiar with where we've had misconduct, I think if you take planned service fees—

Mr KEOGH: I'm after the total number. Of all the matters that have come before the royal commission in respect of NAB—

Mr Thorburn : It will be hundreds of thousands. I know the planned service fee involves hundreds of thousands. They're small amounts, but there are hundreds of thousands of customers. If you take the introducer fraud questions earlier, I think we had about 11,000 customers, so it depends. I would have to take the question on notice to get it precise, but it would be hundreds of thousands in total.

Mr KEOGH: Hundreds of thousands being close to, or over, a million customers?

Mr Thorburn : I don't think so.

Mr KEOGH: And I take it that, as the CEO and as the bank, your commitment in setting up this central component of the bank is to ensure that all of those customer are remediated and put back in the way that they should be as a consequence of this conduct of the bank?

Mr Thorburn : Absolutely, yes.

Mr KEOGH: And how far back is the bank looking? For example, are you only dealing with matters where a customer is not statute barred or are you looking further back? How far back are you going?

Mr Thorburn : I think the adviser service fees and planned service fees go back five, eight or maybe 10 years in total. They go back multiple years. When we did the introducer one, we went back to the beginning of when these loans were being originated, so we went back as far as it took to pick up potentially impacted customers. We want to do it right. I don't want to cut a corner. So—

Mr KEOGH: So you're not drawing arbitrary boundaries around how far you may go back to provide this compensation or the customers you are picking up?

Mr Thorburn : No. That's not the intention, no.

Mr KEOGH: Will you be able to report back to us—I presume, there'll be more hearings—to let us know how this process is progressing? We've asked you a number of questions, and you've talked about things happening sometime next year. Will you be able to tell us how many customers have actually been remediated, the amounts that have been paid to them and the timing of those things? Is that something you'll be in a position to do?

Mr Thorburn : As we proceed, I think we should absolutely be able to make that number available to you prior to our next meeting.

Mr KEOGH: I'm told I have time for only one more question. As I'm sure many people here will see, I have a folder full of questions, but I might just turn to this one concerning a case study that has arisen from a round table that was held by Labor's shadow minister for financial services, Ms O'Neil. She and I held some round tables with affected customers. I'm sure you'll have more information about the case of Mr and Mrs Furneaux. I understand you know some information about this case. It seems that they were in a situation where, despite not being in default of any of their loans, they were visited at their home by NAB officers who, over a period of time, put pressure on them, used unacceptable language and made changes to their financial arrangements without their consent. Over a number of months redraw moneys that were previously shown on their statements as being available were removed. Monies allocated to one account were put into another without their consent or knowledge, which caused defaults on automatic payments. The bank allegedly took repossession action against their motor vehicle as a result of defaults caused by the unauthorised transactions. I'm informed there was a physical injury to Mrs Furneaux as a result of that repossession action. There was a placing of restrictions on business working capital and other finance without justification, which then caused defaults against the family home and other properties. There was retention of surplus funds by the bank, which they still believe is owed to them after the sale of their properties in 2014. They've had significant ongoing financial, mental and physical health impacts, including losing their family home and investment properties. They've had to live in a rental property. They've had to place themselves, for a period of time, on unemployment benefits, because they were unable to work, because they were suffering from stress-related chronic illness. That effectively all stems from the conduct of the way in which the bank was operating their accounts without their consent. How do you respond to this?

Mr Thorburn : That sounds like a terrible situation. I don't know the details of it; I know the headline. I would be happy, as I've met with other customers, to meet with the Furneaux, personally, to hear what they have to say and to endeavour to move it forward so it can be mediated and resolved.

Mr KEOGH: And are you prepared to—

CHAIR: Sorry, I do need to go on to other people. You will have more time, Mr Keogh.

Mr KEOGH: I just want to ask if the CEO is prepared to meet with customers like the Furneaux.

Mr Thorburn : Yes, absolutely.

Mr KEOGH: Thank you. I look forward to some further time, Chair.

CHAIR: That's fine. There will be plenty, but I have to share it around.

Mr FALINSKI: Mr Thorburn and Mr Gall, you said in your opening statement that you put people before profit. Was there ever a time when it was possible to make a profit without people?

Mr Thorburn : No.

Mr FALINSKI: Then why did you do that?

Mr Thorburn : I think it was the other way around. I said that we've ended up putting profits before people. When I started in banking it was drilled into us that serving customers was why we existed. I've been in banking for 30 years, and I think in the last 20 we've drifted. When you drift, you don't know that it is happening. It looks incrementally sensible, others are doing it and there's a system that reinforces it. Shareholders appreciate it if you're making good and better profits. It happened because we drifted and we lost focus on the most important purpose of why a bank exists, which is to serve and enable customers to make very big financial decisions and to trust us in that process.

We've got to this point and I feel that this committee and the royal commission has certainly caused me to personally step back. I actually believe in our profession. I believe in our people. We get it right most of the time, but there are some very clear cases where we have not. We can go back and look at the cause as opposed to the symptoms. We need to look at individual cases. We can go back to how it happened: not focusing on customers, too much focus on financial incentives not leveraged on customers and a lot of compliance and regulation and old systems and bureaucracy. We became too slow and not agile enough. There were too many layers. That's my diagnosis.

Mr FALINSKI: Can I put it to you—it being that you are the last of the CEOs from the big four to appear before us—we can hold you accountable for what the other three said? Can I put it to you that the Hayne royal commission found that the reason is there's a lack of competition in our financial services market. They reproduce on page 3 of the executive summary an index, which looks at the Lerner Index from the Productivity Commission, which shows that the major banks in Australia enjoy massively high profits compared to other Australian-owned banks. You are substantially above world average and substantially above the high income countries average. Firstly, do you agree with that contention from the Hayne royal commission?

Mr Thorburn : I'm not sure of those specific figures, but—

Mr FALINSKI: I can direct you to page 9. I'm happy to pass it over. It's on page 9 of the overview:

Figure 3 The major banks are using their market power to keep interest rates high on loans and low on deposits.

Ms Thorburn : I don't think there are massively higher profits.

Mr FALINSKI: You don't agree with the royal commission on that?

Ms Thorburn : Yes—I disagree with the banks making massively higher profits. I quoted numbers to show that the return on capital for our bank compared to other banks globally is competitive and may be lower. When you look at the cost of raising capital, at 10½ or 11 per cent, we're not significantly above that.

Mr FALINSKI: So, you disagree with the Productivity Commission's review of the banking sector in Australia that found return on equity in the Australian banking sector is significantly and materially above the world average?

Ms Thorburn : I think we need to look at the time frame. What Australia has benefited from is 25 years of economic growth. And you need to look at current return on capital. If you take an average of five or 10 years, that will be so. But right now I don't think that, factually, it is correct.

Mr FALINSKI: So you disagree with the royal commission and the Productivity Commission on this matter?

Ms Thorburn : Well, it is possible to have a different view and—

Mr FALINSKI: Yes, we still allow that in this country, under this government, anyway! Other governments in the future—

Ms Thorburn : You're throwing a lot of numbers around. Let's come to the substance.

Mr FALINSKI: Yes, of course.

Ms Thorburn : I'll come to the competition point, because I think there is one particular factor that's impeding competition. We've got four large banks and there are 160 deposit-takers in Australia. If you take our bank alone, over the last 20 years, our margin—the difference between the deposit and the lending rate—

Mr FALINSKI: The interest margin—yes.

Ms Thorburn : has halved. That has been as a result of competition. That's what's forcing that down: foreign banks, fintech players, really good large-bank competition. It is a fact that the margins of our bank have halved, and that is a function, Mr Falinski, I believe, of competition. Now, I think—

Mr FALINSKI: Sorry, I am throwing figures around. I apologise. I hate using figures—

Ms Thorburn : I would be happy to talk to you separately.

Mr FALINSKI: I'm happy to do that, too. Brian Johnson—you'd know who Brian is; he's probably the leading banking analyst in Australia and has been for a number of decades, at least that's what he tells me.

Ms Thorburn : You got that from Brian?

Mr FALINSKI: Yes, Brian told me that personally and I believe everything that a banking analyst tells me! Brian told me that net interest margins for Australian banks are also significantly higher than in other global markets similar to Australia. Do you disagree with that? He's produced graphs that show all of that. Unfortunately, I can't get hold of internal numbers or anything like that. This is all publicly available information produced by the RBA, produced by the Productivity Commission, produced by the royal commission and produced by analysts.

Ms Thorburn : I would just comment that the fact of our business is that, in 20 years, our net interest margin has halved and now it's below two per cent.

Mr FALINSKI: Brian's point would be that it's happened globally. But the thing is that the Australian banking market has been able to maintain materially higher net interest margins in the big four banks. The graph on page 9 of the overview of the royal commission shows that other Australian owned banks, on the learner index, are at 20 per cent and the major banks are close to 50 per cent. It seems to be something unique to the major banks in the Australian marketplace.

Ms Thorburn : It is a feature. Like the Canadian banking system, you've got a high concentration. I don't think that's entirely a bad thing, in terms of the economic structure, because you've got strength. You've got banks that, collectively, are quite strong in terms of their balance sheet and their liquidity—

Mr FALINSKI: I appreciate that. Let me tell you where—

Ms Thorburn : and their customer satisfaction is still pretty high.

Mr FALINSKI: Sorry, I just don't want to run out of time, like Mr Keogh did. I've only got 10 minutes. The royal commissioner made the point that he thinks the reason that this is all maintainable—and I agree with your contention: having a strong banking system is not a bad thing, unless it's at the cost of consumers and the cost of an efficient market. You would agree that banking is at the centre of any economy and the efficient allocation of capital?

Ms Thorburn : Yes.

Mr FALINSKI: The royal commissioner says that the problem is that it's not happening here. There is the appearance of competition without there being actual competition. There are 4,000 mortgage products and, while there may appear to be innumerable brands, they tend to be owned by the four major banks. That's once again on page 7. He's produced this graph that I have. This looks like competition here, but in the middle it's actually four owners. Do you agree with that contention—or that hypothesis, at least?

Mr Thorburn : Can you just summarise what the contention is?

Mr FALINSKI: The contention is that the complexity of the marketplace deliberately created by the major four banks in the number of products that are produced by you—the blizzard of brands that are out there that are in fact fronted by the big four—is what is creating that problem.

Mr Thorburn : I do agree about the complexity, with the number of products, the number of variations—not focusing on existing clients; always wanting to win new clients, as opposed to looking after the ones you've got. You get into a frenzy of adding things that make it incrementally better but worse overall. Yes, I do think it's become a very complex market, but you've got to come back to having strong banks where their margins have reduced, where their return on capital is not that far above their cost of capital. That does show that competition is working, because margins have halved in 20 years.

Mr FALINSKI: So in that sense you disagree with Brian Hartzer. Brian feels that, no, those products are there to meet consumer needs. **I wonder if you disagree with him on one other point he made when he was here last Thursday, which was that, if Westpac had not been able to take over St George, it would have fallen over.**

Mr Thorburn : Well, it's not for me to comment on that one, because Westpac acquired St George. What I can say, though, is, when the global financial crisis hit, you saw the impact on banks offshore where they didn't have liquidity and they had short-term funding, whereas the Australian banks were, by and large, able to move through that.

**Mr FALINSKI: You did work at St George?**

**Mr Thorburn : Yes, I did, for three years.**

Mr FALINSKI: For three years, from 2002 to 2006?

**Mr Thorburn : No, I joined NAB on 1 January 2005.**

**Mr FALINSKI: And, Mr Gall, you also worked at St George. You were the chief credit officer at St George?**

**Mr Gall : No, I wasn't. I ran the retail bank there and I ran the corporate and business bank there.**

Mr FALINSKI: Okay. And you were there till when?

**Mr Thorburn : End of 2007.**

**Mr FALINSKI: End of 2007. So, while you were at St George, did you believe that the bank was not being well managed and that there were prudential issues at the time?**

**Mr Gall : No, I did not.**

**Mr Thorburn : I should probably speak right now for the bank I've worked for since 1 January 2005 and that I'm CEO of.**

**Mr FALINSKI: No, no, I understand. This goes to a point, though, Mr Thorburn, which is that I think there's a sense, not just here but around the globe, that people in banking made decisions that cost the community a lot of money, and none of those people were ever held to account for that. So we have the CEO of a major bank saying that they took over another bank because it was about to fall over.**

**Mr Thorburn : Well, it wasn't this CEO that said that.**

**Mr FALINSKI: No, no, I understand.**

**Mr Thorburn : Just to be clear.**

**Mr FALINSKI: And that was the first time that's ever been said publicly. A lot of people**

**speculated about it, but that was the first time that it's been said publicly. You have a situation where, at the time, you were at St George; Mr Gall was at St George; and the person who was in charge of the Council of Financial Regulators—who is tasked with the job of ensuring that banks are properly capitalised and their prudential regulation is enforced—was the then secretary of the Treasury, and he is now the chair of your board. Is that correct?**

**Mr Thorburn : Ken Henry?**

**Mr FALINSKI: Ken Henry.**

**Mr Thorburn : Yes.**

**Mr FALINSKI: That's correct. And the CEO of Westpac at the time, who launched that takeover bid of Westpac, had also been the CEO of St George less than a year before that. Is that correct?**

**Mr Thorburn : Yes. If you're talking about Gail Kelly, yes.**

**Mr FALINSKI: Where in all of this, though, does the truth lie?**

Mr Thorburn : Well, I think—

**Mr FALINSKI: No other bank in the Australian system came close to falling over. Bankwest was a distress sale, but that was because its owner in the UK was under pressure.**

**Mr Thorburn : I would just say two things. Firstly, I'm here to speak about National Australia Bank. I am the CEO of this company. I have worked in this bank since January 2005. So I think your questions should be about that. It's been long enough, and that's my role. Secondly, you're making the inference here, about my reputation and maybe David's, that we should have been held accountable for something, or we had some misconduct. I reject that totally, if that's your inference. I think it's unfair, and you should be very clear what you're saying about us.**

**Mr FALINSKI: Yes, and I'll be clear: I'm not suggesting that at all. But what I am—**

**Mr Thorburn : So you withdraw any question about our reputation?**

**Mr FALINSKI: Absolutely, Mr Thorburn. I made no such inference, and, if you've taken it as that, I apologise up-front. But what I don't withdraw is the fact that, in our banking sector here, as across the world, there are people who have not been held to account for things that they have done. Is that something that you agree or disagree with?**

**Mr Thorburn : Well, I hope, in our bank—let's go through specific issues and people, because that's what you should be asking me about. I believe we should—we do—hold people to account. I talked about that a bit earlier. And maybe, with further questioning, we can talk about that. I believe we do do that to assess people fairly, broadly. If they don't live up to our standards, we terminate them; we reduce their variable reward; or they have some other consequences. Either they resign or they don't get a promotion in our company. I believe that's what's consistently happening in NAB. It won't be happening everywhere, because the company is so large, and we're going through a lot of change. But that's definitely our intent, and I think it's happening pretty consistently today.**

Mr FALINSKI: Okay, fair enough. Can I go to the question of brokers that you were talking about and specifically to your broker network, or the introductory system that you have. You have a system where there is a blizzard of products, so is it surprising that people are going to brokers?

Mr Thorburn : I agree with that. When—

Mr FALINSKI: We've found a point of agreement—

Mr Thorburn : Yes, we have. We've found one. In the mid-nineties, I think, Aussie Home Loans came into the market and reduced the standard variable rate. The brokers started to grow out of that because there were more products, introductory rates, fixed rates, split rates—so there was a blizzard of new product innovation. And brokers stepped in, I think for two reasons. One is that I think this was the drift. The banks weren't really focused on existing clients and really wanting to deal with them and help them. Banks were closing a lot of branches at the time, taking away that ability. And brokers said, 'We can help you navigate a very complex environment.' I don't think it was just about the products; it was about multiple properties and income and rental income, so there was a lot of complexity in the whole process, not just in the product. I think they stepped into that breach, and they have grown as a result.

Mr FALINSKI: Are you not worried, out of the royal commission, where there has been a lot of pressure being put on incentives for brokers, for example, and a lot of claims that they have been the prime source of misrepresenting people's income and expenses, that this is a particular channel that might get closed down?

Mr Thorburn : I think closing it down would be dramatic, extreme, given that over 50 per cent of the volume coming through banks comes through brokers. Those brokers are, in many cases, professionals, licensed, running small businesses, so the impact on the economy and on their livelihood would be dramatic. But I think I would come back to: we expect brokers to do certain things when they take details from customers—to pass that in full to us.

We make that decision ultimately as to whether we'll extend credit to the customer. We look at their income. We definitely go through, in a great deal of detail, their expenditure to make sure they can afford it. We require the customer, even though the broker is dealing with them, to be able to pay P&I, principal and interest, back, even if they're getting interest only. And we require them to be able to afford 7.25 per cent per annum as a minimum, even though they'll be paying a lot less in today's rates. So I do think we've got lots of checks and balances in that process, and I do think that, while the broker market needs to evolve, it's playing an important role.

Mr FALINSKI: I'm going to run out of time. I just want to talk about one other thing, which is business banking. The Productivity Commission once again, in its report at figure C.32, found that all banks' lending to the business market from 1991 to 2017 had fallen from about 63 per cent to around 32 per cent. At the same time, the share of lending to the housing market, both owner occupied and investment, had increased from about 30 per cent to just slightly over 50 per cent. Is there a reason why banks have been withdrawing from business lending?

Mr Thorburn : Well, I think—on the two numbers you quote there—the first one is that what we've seen in the last 20 years is a great deal of growth in house prices and household debt. That's been the focus. That's been the demand, and that's what banks have responded to. I think some of those mortgages, that mortgage product, are probably being used by small-business clients. That's over their home, to finance their business.

But I think the other thing is that small businesses do have more risk in terms of their ability to form, raise capital, handle the working capital that's required as they grow—it's unsecured; it's using other forms of finance. So it is a more risky and more complex area.

We're the largest business bank in Australia, and I think we're stepping right into this at the moment. We're growing our market share. This QuickBiz product that I talked about, this QuickBiz platform, is extending unsecured finance to small businesses. So I think we're wanting small businesses to grow, but of course we have to be discerning too, in that we're backing businesses that we think will succeed ultimately.

Mr FALINSKI: But—

Mr Gall : Sorry, I was just going to add something quickly to that. I think what we've also seen clearly is the home loan market grow more over that period of decades—

Mr FALINSKI: Sorry, to be clear: this is about market share, not absolute loans.

Mr Gall : My point is that, even over that time, NAB has significantly grown its business-lending size. We have approximately $200 billion of business lending out there, and we continue to grow that and continue to be open for business. The point that I want to get across is that, over that period that you're talking about, we've certainly not retreated from the business-banking market, and that was particularly evident through the GFC as well.

Mr FALINSKI: Do I have time?

CHAIR: Not really.

Mr FALINSKI: Okay, I'll come back later. Thank you.

CHAIR: I appreciate you asking, Mr Falinski. We're going to take a short break, and we'll return. Mr Kelly, there will be time for further questions.

*Proceedings suspended from 11:01 to 11:11*

CHAIR: We're going to begin with questions from Mr Kelly.

Mr CRAIG KELLY: Mr Thorburn, just going through your opening statement, you've acknowledged four problems the banks had: you said you've shifted away from a focus on customers; you said you've incorrectly adopted a short-term view rather than long-term view; you've had a compensation scheme that was misguided in such respects; and you said the bank, basically, had internal inertia. Given all those things, why wasn't the bank punished by the market? I put it to you: if many of the people here today running businesses had to admit all those things, and their business had internal inertia, they would have lost their shirts. Why hasn't that happened in the banking sector? Why hasn't that happened to NAB?

Mr Thorburn : I have given this diagnosis as my own, reflecting on my time as a banker, and it's been brought out by this year's events, which has been good. The first thing is it happened at a glacial speed. So when you were in it, you didn't think it was wrong, or you didn't think you were moving off true north. But now, I personally sit and look at it and I think, 'This is what has happened.' My first point and second point were, really, about the focus on profits and growth. If you look at it, maybe, from a shareholder viewpoint, that was attractive. But, actually, when I step back from it, to build a sustainable business, you need customers who want to be with you, who want to do more business with you and who don't want to leave and go to another bank—and where we can move quicker to satisfy their needs. That's not where we've got to. In the shorter term we've grown, but, actually, it's been misleading.

Mr CRAIG KELLY: But would you agree that, in other sectors of the economy, if a business had to go and admit all these things they were doing wrong—like internal inertia, the poor incentive schemes and the focus being away from customers—in a normal competitive market, surely they would have been punished by that market?

Mr Thorburn : Firstly, we're doing this in hindsight looking back over 20 years—

Mr CRAIG KELLY: I'm sure but—

Mr Thorburn : and, secondly, we are being punished. Good morning; we're here. I think we have been punished because of what's happened in the last two years, where, by our own admission, we've fallen short of community and customer standards. This committee and the royal commission have laid that bare.

Mr FALINSKI: Are you saying appearing before us is punishment!

Mr Thorburn : One side might be enjoying it!

Mr CRAIG KELLY: Could I put it to you that isn't the fact that you've made those admissions of those four things and you're saying, 'Okay, maybe we're being punished now, but while we were actually engaging in that conduct we were able to get a better return for the shareholders and increased profits,' an admission of a lack of competition in the banking sector, compared to other sectors of the economy? Surely, if other sectors of the economy had to come and say, 'In hindsight, we made all these mistakes,' the market would have punished them. The competitive forces of the market place would have slugged them. But that didn't happen in the banking sector, because there isn't as vigorous competition.

Mr Thorburn : I'm not sure. You're bringing a cause to the effect. I'm not sure that's right, and I would have to think about it a lot more, but if you'd like to talk about the competition point I'd be happy to.

Mr CRAIG KELLY: What do you say was the cause of it? I put it to you that, in normal competitive markets, if a company engaged in that activity the market would discipline them, and it's only where the market is not fully competitive that businesses are able to engage in such conduct and increase their profits at the same time.

Mr Thorburn : The other point, though, is that a business, in our case, wouldn't have halved margins over 20 years, because that's a fact, unless there'd been competition. That's what's forced margins down in the banking industry. You've got brokers, you've got fintech players and you've got foreign banks, so there is a lot of competition. There are many customers who actually enjoy dealing with the bank and are very satisfied with the bank. We provide great services and really good people, and that's why they don't want to leave. But I think it is hard to switch, because of the complexity of the products, the regulation, the compliance and also the information that they have to give to the new bank. It's really difficult. `I was going to say maybe in relation to Mr Falinski's question, I think that is one of the issues that are perhaps not allowing the competitive wheel to spin as much. The cost both in time and money to move from one bank to another is hard.

Mr CRAIG KELLY: Is the market less competitive today without St George as a separate, individual player?

Mr Thorburn : It feels more competitive today than ever, because we've got new competitors. We've got new, direct banks getting provisional or full licences from APRA competing against us.

Mr CRAIG KELLY: They haven't the same weight that St George previously had.

Mr Thorburn : No. But that is something that happened 10 years ago in a transaction that was approved by the authorities and the shareholders. It's getting the mix between having banks that are strong, so that as the headwinds come—in my opening statement I said the headwinds I feel are coming—to withstand that pressure and keep lending to customers when there is pressure with competition in the market, too. I think the balance is pretty reasonable. As a person who runs a bank, my job is to compete in the marketplace—

Mr CRAIG KELLY: Was the market more competitive when St George was a viable separate layer?

Mr Thorburn : We're going back to other conversations, but St George was a very strong competitive retail bank.

Mr CRAIG KELLY: So with them not effectively being a separate strong retail bank, there's been a slight decline in competition.

Mr Thorburn : There are regional banks at play now. There's Bendigo Bank, Bank of Queensland, Suncorp; you've got fintech players; and you've got the majors as well, so it feels today, as a competitor in the market, it's as tough as it ever was.

Mr Gall : In this market you've obviously got the non-bank financial institutions as well—those that securitise their loans. They are getting bigger and overall the majors' market share, particularly in mortgages, is less than it was a couple of years ago.

**Mr CRAIG KELLY: Let me put a fifth reason to your four points as to why misconduct and the falling of standards happened. I put it to you that it was a problem of access to justice for aggrieved customers. There's been an unequal playing field for people. If they didn't get through your internal dispute system, because of the way our legal system works and the high cost of our legal system those people simply didn't have access to justice. Would you acknowledge that that perhaps would have been one of the reasons why?**

**Mr Thorburn : I think that's a fair point, yes.**

**Mr CRAIG KELLY: Do you think that can be resolved? Well, it will never be perfectly resolved. But, for someone who's aggrieved, who feels there's been some breach of a contractual term or a breach of the competition law, consumer rights, do you think a tribunal system could at least level the playing field a little bit?**

**Mr Thorburn : I'm agreeing with the essence of what you're saying, which is that we need a better, faster, more transparent mediation process. But I think it's also particularly for business-type clients as opposed to retail. So I do agree with that. You referenced the tribunal; I'm just saying that I agree with the core of what you're saying, yes.**

Mr CRAIG KELLY: Going to one of the other comments you made in your opening statement—you said that you're ending the use of high-default interest rates for farmers in drought-declared areas after the commission heard from your customers Ken and Deborah Smith. How much higher were those high-default interest rates?

Mr Thorburn : The rate in question there—because I went and looked at it, and that's what provoked me to do it—was 18 per cent.

Mr CRAIG KELLY: So what were they—did they jump to 18 per cent?

Mr Thorburn : The default rate was 18. I'm not sure exactly what their rate would have been, but it would have been well below that—well below that.

Mr CRAIG KELLY: Single figures?

Mr Gall : Yes, single figures.

Mr CRAIG KELLY: So it was more than doubling—

Mr Thorburn : You could say doubling.

Mr CRAIG KELLY: What was the particular default? What event triggered it going from—

Mr Thorburn : Well, I think—

Mr CRAIG KELLY: The bank said, 'Now we've got to charge you 18 per cent.' What did they do wrong contractually?

Mr Thorburn : I think I should ask David, as the former chief risk officer, to talk about default interest and how it works and what triggers it, as opposed to those clients. I don't think it's fair that we talk about a specific client, but we can talk about what triggers default—

Mr CRAIG KELLY: What would it trigger in general?

Mr Gall : What would trigger it in general would be a monetary default—so the interest isn't paid or payments aren't paid when they're due. That would need to have occurred over a protracted period before default interest would be charged.

Mr CRAIG KELLY: So that's a default rate on the whole sum that they owe?

Mr Gall : That may be a default rate on the whole sum that they owe if all of what they owe is in default.

**Mr CRAIG KELLY: So, for example, if they had an outstanding overdraft or loan of $1 million and they were previously paying—you said single figures—say eight per cent, $80,000 to 90,000 a year, and all of a sudden they get slugged with an 18 per cent interest rate, so their costs go up to $180,000 a year, that's effectively 100 grand-plus on the business with a $1 million overdraft. Where does that extra $100,000 in costs come into the banks?**

Mr Gall : I think there are a couple of things here. We are concerned about the level of default interest. Now, in many cases it's not charged. In many cases, particularly when customers have run into financial difficulties, we don't collect that default interest. The entitlement is there to charge. We felt that it was really important, particularly for farmers in drought-affected areas, that we remove that as being something that's hanging over their head, particularly in the conditions—

**Mr CRAIG KELLY: I understand the concept. I understand you've the right to the concept of charging default interest. My question goes to the quantum. If someone has a $1 million loan, how do you justify that you are going to charge them an extra $100,000 a year if they breach some covenant? Isn't there a very strong argument that that is an unlawful penalty?**

Mr Gall : The calculation there—you can work it through in terms of the costs of capital, of a much higher risk loan; you can work it through in terms of the additional cost to the bank. However, and we feel quite strongly about this, we do think that default rates overall need a review and we have to put ourselves in the customer's shoes and what they're seeing around this. That is a priority for us.

Mr Thorburn : Can I add to that, Mr Kelly. First of all **I don't think they're unlawful. They are in contracts that have been long established and agreed between the bank and the client**. That's the first point. But I want to now move to—when I saw that case I was perplexed. **I said that this doesn't feel or seem right, because, whilst it is what we could do, is it what we should do? That's where that conversation started. It's not just about the money; people at that point are in a very difficult and vulnerable position. They're in default of a major loan that they owe the bank. It's an emotional and stressful time for them. So I think we have to be thoughtful and careful about that. So what we did, as a first decision—you have to move there progressively—was to say: 'If our customers are in drought-affected areas, we will not charge default interest, full stop.' We have now stopped.**

Mr CRAIG KELLY: Is that all businesses in drought-affected areas or just farmers?

Mr Thorburn : It's agri-clients. Agri-clients are where—

Mr CRAIG KELLY: So say it was a transport business that relied on the farming—

Mr Thorburn : I want to come to my third point, because I will pick this point up. We dealt with what we knew and could in a fast way, which was: agri-clients in drought-affected areas, because drought-affected is one particular part, but agri-clients, because of the nature of their cash flow and commodity prices and things like that, are particularly vulnerable. So that is why we did that.

Thirdly, I have asked for a review more broadly of default interest rates and on what basis we would charge them. I think David has referenced a couple of points: cost of capital and higher administrative costs. But the quantum is where we're going. I have not concluded that yet, but we are looking at it.

Mr CRAIG KELLY: In my understanding of the law—as a non-lawyer, unlike Mr Keogh and some others on the panel—**for you to charge that default interest rate, as you set it out, it has to be a genuine pre-estimate of the cost to the bank resulting from that default. Can you explain to us: if a business with a million-dollar loan breached some default, how could that add $100,000 additional cost to the bank?**

**Mr Thorburn : I don't know that detail, but I am pretty confident in saying that, given how long they have been around and how many clients have it in contracts, we could do it. But the question is: should we do it?**

Mr CRAIG KELLY: Isn't that also an issue where you've got it and you've got a lot of money—it's the gun you can hold to their head? Wouldn't it be far more transparent—okay, if there's a default, there's a cost to the bank, and you have that, whether it's one or two per cent additional—to charge it to everyone, so it's fair, rather than having something which, I would argue, is bordering on an unconscionable penalty and then holding that as a discretionary thing that you can apply or not apply?

Mr Thorburn : I can see why you're saying that, and I'm sort of conceding that we need to keep reviewing it. We've made one change, and we need to keep making—**I'm just not agreeing with 'it's unlawful'.** However—

Mr CRAIG KELLY: Let me put this to you. Say the default interest rate was 50 per cent. Would you agree that that would be an unlawful penalty?

Mr Thorburn : On what basis?

**Mr CRAIG KELLY: On the basis of common law—that, if there's a breach of contract, and you've got that contractual term, which is basically a liquidated damages provision, it has to be a genuine pre-estimate of the bank's costs. Let's say 100 per cent. There must be some point, some quantum, where the default interest rate becomes an unlawful penalty.**

**Mr Thorburn : I will accept that point. My commitment to you is that we are going to continue to review this to make it clearer and fairer and more consistent for our clients going forward.**

**Bill Mott - [Exploited Farmer]**

**Mr KEOGH: Mr Thorburn, I'd like to ask you about another customer matter. It relates to a Queensland farmer, Mr Mott. I'll go through the brief details of his case, because I think not only are they concerning as far as they relate to him and his family but they are quite reflective of a number of the issues that farmers—**

Mr Thorburn : Can I just say one thing?

Mr KEOGH: Please, proceed.

**Mr Thorburn : Mr Mott is here, and I will be seeing him after this hearing.**

Mr KEOGH: I'm very glad to hear that you will be, because that answers my last question in this series of questions. But the issue, when boiled down, is that **Mr Mott was encouraged by NAB to take out loans in a particular profile, and I'll come to that. He expanded his farming operation. He had a series of—in generic terms—bad years, as you would expect, from around 2010 through to 2014. There was no question raised with the farming practice. It all had to do with weather events and so forth. The loans that were entered into and the way in which that process ran, involved—as you would expect, with many farming communities—him having to travel a great distance to meet with his banking manager, or to meet in a town halfway between where the bank manager was, in Roma, and where his farm was, and sometimes meeting at a hotel to do that. Some of the paperwork wasn't**

**completed, often, when he had to sign that paperwork, or details were not completed when he had to sign it. He went through a process where, under the financial strain of a few bad years, he was seeking additional funds to get into the next crop and so forth. He was encouraged to enter into arrangements for higher purchase of equipment that would involve balloon payments. Then, in discussions with his bank manager and seeking assistance, the local manager ended up bringing in, without Mr Mott being aware of this in advance, the additional assistance, which was in the form of NAB debt recovery, who then, despite saying that there'd be no action to sell at below value of the property, brought in receiver managers to run the property at significant cost. They ended up selling the properties for a loss. When looked at, that resulted in about a $6 million loss in the sales of the properties, about $6½ million of foregone income in the two years that then followed, because there were better weather conditions, and about $1 million in receiver costs. That equals a total loss of around $13 million in that case.**

**You could change the dollar values and you could change the name of the farmer—we have similar examples all across Australia, with your bank and other banks. Why is it that there seems to be a lack of understanding of the farming cycle? I get that a bank has to draw a line somewhere, but there seem to have been instances here of engaging a farmer in loans that were not appropriate and financing that wasn't appropriate, mistreatment by receivers of that business, and also engagement, frankly, of very expensive and very professional receiver managers in an area where you probably didn't need to incur that sort of expense for that business. What do you have to say to all of that?**

Mr Thorburn : Firstly, we're the largest agribank in Australia. We have been for quite some time. We have over 500 agribankers. We take on about 50 agrigraduates a year.

**Mr KEOGH: There are quite a few angry bank customers as a result though as well.**

**Mr Thorburn : I understand. My first point is: we've done this for a long time, and I think, overall, we've done it very well. There are some cases where we have not, and that's not good enough, because that individual case is a person who has a family, and the events have had a dramatic impact on them.**

**Mr KEOGH: Absolutely. Going back to my previous point, you have a dramatic impact of misconduct, in terms of not properly completing paperwork and not explaining the nature of a combination of term loans, bank bills—I might point out that the rates on the bank bills were somewhat manipulated by the Australian banks as well, but that's a whole other issue—and balloon payments on higher-purchase arrangements for equipment. There were a whole range of different financial arrangements that were not well explained, not well understood and not necessarily appropriate in the circumstances either.**

**Mr Thorburn : It comes back to my opening statement around: we've become too complex. There are too many products and too many specific legal clauses not in plain English. I do acknowledge that. I'm looking forward to meeting Mr Mott. I will work through that with him. But it's a little difficult to respond to detail of a particular customer that I don't know, and you have that detail. I'm looking forward to meeting Mr Mott and others, but the bigger picture to me is: we want to get this right. We want to get it right 100 per cent of the time. But, given how many customers we're dealing with and their complexity—not just complexity of product but the complexity of their situation—we probably won't get it right 100 per cent of the time, but I certainly think we can do better.**

**Mr KEOGH: It strikes me that these are the sorts of cases that are a good example of where these failures of the bank not only result in someone being charged a higher interest rate than they should have been or being charged fees or penalty interests that they shouldn't have but also result, which is the next step, in there being a receiver manager and a sale, which is effectively a fire sale, of the land and of the equipment. It's**

**not just a case of, 'I took a financial loss.' Their entire livelihood going forward is wiped out. Going to the questions I was asking you previously: is the bank going to look at more holistic compensation than merely what went wrong with these technical dollars on the spreadsheet?**

Mr Thorburn : I certainly agree with your point that you can look at the numbers, but I think some of those—

Mr KEOGH: The broader causation, certainly with numbers, that comes after.

**Mr Thorburn : Someone famous said that the most important things can't get measured. That is about the impact on people, their families and their livelihood. So I'm acknowledging that, and I would like to move to somehow taking that into account if we can, because we should. Where we've been at fault and done wrong things, we should be reflecting that.**

**[RITA TROIANI - Wide Bay Brick Bundaberg Case]**

Mr KEOGH: I'm sure Mr Mott and many other farmers will be very happy to hear that and will look forward to hearing how you'll be able to progress that after you meet today. **Another case that's been brought to my attention is a case that was brought to the attention of the royal commission as well. This has been a longstanding matter of dispute, as I understand it, between NAB and the customer. It involves the Wide Bay brickworks in Queensland. I could go into all of the detail here in this hearing. Ms Troiani is here as well today, and I'm sure she would like to meet with you to discuss this.**

Mr Thorburn : I'm meeting with her this afternoon.

Mr KEOGH: I'm glad to hear that. In Mr Mott's case, **this case concerning the Wide Bay brickworks and a lot of the matters that have come to the forums that we've been holding with banking victims there has been the issue of not being able to get transparent responses from banks. This was a matter that was brought before your predecessor at a general meeting by members of the media. It's been raised in the Queensland state parliament as well, and I understand that it's gone through a number of court proceedings. One of the things I find frequently with these matters, where they go through court proceedings, is there's often a summary judgement, because, by the time it's in court, the issue is not the unconscionability of the bank or breaches of contract; the issue is merely a matter of foreclosure. There are very streamlined proceedings for those in the courts, and there's good reason for that, but it's way too late in the process. But, in the process of trying to get to that point, there seems to be a lot that the banks are doing—your bank included, and this is a classic example here—where people have said to the bank: 'We need information. You've got that information. You've got statements. You've been running additional information that you knew but never told us about and we've only found out after the fact. But you won't give us all the detail.' My question is: what's your commitment to people like those involved with Wide Bay and these farmers about a bank that will give transparency in the information that it holds? So it's not just a case of bringing a challenge and trying to get a matter through court but being clear with your own customers that, when they have an issue, you'll respond to their letter, that your bank will provide that information. There may be a fight about what it means, but at least give the information so they are in the right position to have that fight with you.**

**Mr Thorburn : Yes, I totally agree with you there. We need to have basic courtesy. We may disagree, but being able to promptly and courteously respond with information is absolutely important. I believe that.**

**Mr KEOGH: I think it is. The question was asked before about model litigants, and we've**

**had responses in this case from your bank, and from others, where people have sought documents and they're told: discovery is not part of these court proceedings.**

**Mr Thorburn : I understand that. I understand what you're saying.**

Mr KEOGH: And in the context of open banking, it's not solely your information; it's the customer's information.

Mr Thorburn : Yes.

Mr KEOGH: That issue seems to be completely deficient in the way in which banks, not just yours, have approached a litany of cases, including these ones.

Mr Thorburn : Yes.

**Mr KEOGH: So in terms of meeting with these customers that are here today, when you do—and I'm glad that you are doing that and that you have met with customers in the past—will you be able to commit to them that they will be able to get access to the information that they need to have access to?**

**Mr Thorburn : Yes.**

**Mr KEOGH: I'm very glad to hear that. Can I also ask that, when you look at this Wide Bay issue, you do have some regard to the fact that there appears to have been a potential conflict of interest that arose here: a main competitor to Wide Bay Bricks had common directors with your bank, and that seems to have placed your bank in a matter of conflict in respect of how it handled this. I don't propose to go through all of the detail, but I think banks have an obligation to treat their customers fairly. There's the discussion of the fiduciary obligations of a banker.**

**Mr Thorburn : Where those conflicts are there, they're required to be declared.**

**Mr KEOGH: That was a failing here.**

**Mr Thorburn : Yes. Let's look into that. But we certainly have a process—**

**Mr KEOGH: When that issue was squarely raised with the bank, that was not disclosed, particularly where, in this case, that competitor was also the supplier of a major input material to this customer. I will leave you to go through that. I'm glad you have given the commitments to meet and to go through the issues. You should go through the issues with them.**

**I'm going to ask you another question that's been coming out of matters concerning the royal commission and some other questions that have been raised. Do you see any reason why you as a bank CEO or other senior executives of a bank should not be held personally accountable when there's been a systemic failure in an area of the bank when it relates to customers?**

**Mr Thorburn : No. I'm accountable for the company, its operations, its reputation and its conduct. I expect to be and want to be held to account for that.**

**Mr KEOGH: Do you have any difficulty with the law holding you personally accountable as opposed to merely through your remuneration practice?**

**Mr Thorburn : If that is required and relevant, absolutely.**

Mr KEOGH: I'm glad to hear that. Going on from that, one of the issues raised by APRA in its recent review of the Commonwealth Bank is that it asked other banks to demonstrate how they've considered the issues that were raised in that report. Has the NAB also started looking at the issues that were raised in that report concerning Commonwealth Bank?

Mr Thorburn : Yes, we absolutely have, and we are well progressed. We have a very thorough process that will come to a conclusion at the end of this month internally. I think we are required to report back to APRA by the end of the following month. The day that report came out, our board meeting was being held. We discussed it with the board, and copies were given to the board and to the executive team and senior leaders within 24 hours. Through David we've led a review which is very thorough and very disciplined. We have some external consulting advice to make sure it's independent and really challenged, because we want to learn from this. We want to make sure that we can prevent issues happening so that the bank remains strong and has a good reputation. We're well advanced on it, and it's a very good process.

Mr KEOGH: This is my final question; I know we have time issues. APRA suggested that, in terms of the taking of steps by a bank to undertake the steps they identified as part of the review, the remuneration of the executives responsible for those things should be linked to delivering on those and in a timely manner. Is that something that NAB has considered as part of your and your senior executives' remuneration—there being linkage between the delivery of matters you identify in that report—as being an issue to be resolved? As part of that, how much of your remuneration and that of your senior executives is at risk for not delivering on those things or the issues of misconduct we've been discussing through the hearings and the royal commission?

Mr Thorburn : On the first point, to be clear on the question, once we table the report with APRA, there will be some actions we commit to. You're asking whether people going to be held to account for those?

Mr KEOGH: Financially. That is something APRA suggested in its report.

Mr Thorburn : That's absolutely what we will do. There will be a number of us that will be held to account, particularly the chief risk officer and the divisional risk officers. We will link it and follow through on that. Non-delivery should have consequences for people. That's the first point.

In terms of your second point around overall risk issues, reputation and conduct, absolutely. I and we should be held accountable for that. Our variable reward goes between zero and 100 per cent. It could be zero. I think the board goes through a very thorough process. It looks at my performance and all the issues inside the bank, and the good things the bank has done as well as the mistakes and reputation issues. It takes that into account in determining any variable reward I get. I take all of our executives to the board—every single one—and go through the same individual, rigorous assessment. I make a recommendation to them, which they either change or accept, about what the variable reward should be for people. That process is under way at the moment.

Mr KEOGH: Have you taken a cut to date because of any of these issues that have been raised?

Mr Thorburn : For this year, we're right in the process; it's not concluded yet. That's obviously for the board to determine. In previous years, yes, I have.

Mr KEOGH: Thank you.

CHAIR: I'll take some of the time for myself. One of the things that came out of the interim report was around the challenges around regulation as a response to what's come out of the royal commission. Commissioner Hayne basically suggested one of the problems with regulation was that it was more around enforcement and there was a case for simplification. Do you agree with that basic understanding?

Mr Thorburn : Yes, I do.

CHAIR: When you talk about simplification from the perspective of NAB, what does simplification mean?

Mr Thorburn : From a regulation point of view?

CHAIR: Yes.

Ms Thorburn : We have about 7,000 compliance obligations that we're required to keep and, when you have manual systems and a distributed workforce, it's hard to meet them all the time. We need to meet them 100 per cent. It would be great if they could be reduced, simplified, eliminated and then—

CHAIR: Does that mean not requiring certain amounts of data to be collected or duplicating unnecessary data?

Ms Thorburn : I think those are good examples. We're collecting a lot of information. We're sending it to different agencies and regulators. They could be coordinated more. If you think of a loan application, we're collecting a lot of information. Some of that information relates to ASIC and some relates to APRA. There is information we're sending to AUSTRAC. There are a lot of compliance obligations. If we could refine them and simplify them and then be held to account for them, I think that would be a really good outcome.

CHAIR: You touched on part of it at the end. I've raised this with every CEO. I'm sure there's a concern amongst some people that, when we're talking about simplification of regulation, it could be misinterpreted potentially as deregulation or removing obligations on banks. Do you believe that the penalties for failure of compliance at the moment are sufficient to prompt a bank and bank executives to drive a culture where they'll actually be met?

Ms Thorburn : It's up to the agency or the regulator to take that action. They're probably not significant enough. I also want to caveat that by saying I think about it, in running our bank, as we should do things right. We should comply with our policies, we should do the right things for customers and we should obviously abide by the law. If we don't, we should be held accountable for that with whatever consequences are put to us.

CHAIR: At what point does misconduct within a bank justify a heavier penalty? Mr Keogh raised examples. People don't just lose dollars and cents; people can lose lives—the hard work of their entire life built up, and with that goes reputation. There might be family breakdown and everything else. At what point is there an obligation on us as legislators to legislate penalties to actually hold people to account and say, 'This is actually quite serious because you're destroying, for some people, their social fabric, not just their wealth'? Do you think they should face criminal penalties?

Ms Thorburn : That's obviously something for you to consider. If you get into individual cases with individual customers, there'll always be greyness and there will always be disputed facts. You have to be careful and discerning. I am saying that, if you had fewer laws and they were clearer but you enforced them more rigorously, that would be a good outcome.

CHAIR: I'm taking from that that you think it would not be unreasonable that we review the penalty regimes associated with simplification and actually increase the penalties for failure to adhere to regulatory standards?

Ms Thorburn : Yes. I don't disagree with that. I think you'd have to be clear around what the standard is and get some materiality in it. I just want to go back half a step. The role of a bank is to manage and take risk. We're always going to be, in the case of a customer extending credit, making a judgement and it may not work out. What you don't want to have is penalties which are so severe that the bank actually steps back from doing what it fundamentally should do, which is extend credit into the economy.

CHAIR: I don't think anybody is suggesting that. Those concerns have also been raised by the members around making sure that you can lend, for instance, to small business. We understand that. It's the misconduct part that is of particular concern to everybody.

Ms Thorburn : If it's fraud, we immediately terminate people and hand files to the police.

CHAIR: How often does that happen?

Ms Thorburn : When it happens, we do it, and it certainly happened in our Introducer case, in 2016-17. We terminated bankers and gave files straight to the police.

CHAIR: Does the bank have some sort of internal register? I'm sure it has a risk register, but does it have some sort of database system which tracks not just where problems occur but the progress of resolution of those?

Ms Thorburn : Are you talking about complaints?

CHAIR: Yes.

Ms Thorburn : Absolutely, we do. We have a central system, which is called 'Fair'. We have a central team which handles all our material complaints. We get an extensive report every month. That report about all the complaints goes to the board—where they're from; the nature of them. In the case of the material customer remediation—and we've got about six of them running—I meet with the senior executive myself monthly to go through and look at where all those cases are and see that they're moving through. So I do think we've lifted our intensity and governance and recording and reporting of those.

CHAIR: How do you mean? You've said you've already got it; you're already meeting it. Are you saying you review it more frequently or that there are more people dedicated towards managing it? What do you mean?

Mr Thorburn : I think certainly the latter. We've put more resources in there, and we've centralised to one group in the bank all the major remediation programs that we're running so that there is clarity, consistency, common reporting and speed of remediation.

CHAIR: Do you have data on average speed for remediation?

Mr Thorburn : Yes, we do.

CHAIR: So have you seen any decline in it as a result of your efforts?

Mr Gall : No, we've actually seen an improvement in the time it's taken.

CHAIR: I mean a decline in the time that it's taking for remediation.

Mr Gall : Yes.

CHAIR: So that's an improvement.

Mr Gall : Yes.

CHAIR: Can you give me rough numbers?

Mr Gall : I think one of the public numbers was in the breach report that ASIC put out recently, which showed that more recently we've sort of halved the amount of time to compensate customers.

CHAIR: Okay. You've said a couple of times, both in your introduction and throughout your testimony, that you think that the global economic headwinds are challenging. I will give you an opportunity to elaborate on that before I ask specific questions.

Mr Thorburn : Yes. If you look at the last 12 months globally, I think there have been a few more headwinds that have emerged. Whilst the US economy is growing—it's coming off the back of tax cuts in the Trump regime, and that's a positive thing—Europe still has some real structural issues. The UK, an important economy more broadly in Europe, is in the midst of the Brexit question. Asia, I think, is still growing, where you've got that rising middle class, but I think that with the trade issue—China v US—there are increasing possibilities of some sort of disruption to trade as a result of all that. So I just think the confidence level in the overall global economy is less than it was a year ago.

CHAIR: Sure. But is there a way that you would rate that or put some sort of weighting in terms of your internal analysis about the risk of a global economic downturn?

Mr Thorburn : I would say that the rate of growth in the global economy and the chance of it slowing down has gone up quite a bit. So I don't think there's going to be a global recession, but I think there are questions particularly around trade and the geopolitical issues around the world, which I think are more concerning today than they were 12 months ago. For us in Australia, that's relevant—

CHAIR: You said you don't believe there will be a global recession, but you say it's increased the risk of a global economic disruption?

Mr Thorburn : Yes, and just, I think, uncertainty. What a lot of investors and markets want is certainty. When you've got questions over trade, that's the biggest issue.

CHAIR: Yes.

Mr Thorburn : You've got lots of geopolitical risk. That still remains the case. So I just think that, for investors, the risk has gone up. For us as the Australian economy, firstly, for our trade globally, particularly with Asia, I still think I'm positive about the Asia story and China, but I think there are some questions emerging. Secondly, we raise, as an economy, through the banks, very significant debt offshore, and what we don't want is that disruption or risk causing a greater increase in the cost of funding, because that will then transfer into our economy and to our clients, and nor do we want the Australian economy going anywhere near a recession or the Australian banking system really being challenged on areas like trust and balance sheet strength—which has not happened—because then that has consequences for our customers.

CHAIR: That takes us to something that affects many Australians, which is the housing market. How do you see the housing market at the moment and its strength?

Mr Thorburn : Well, there's not one housing market.

CHAIR: No, of course not.

Mr Thorburn : Our daughter worked for a while in Swan Hill. You could get quite a cheap house there. Of course, if you come to Melbourne or Sydney—or maybe Brisbane, but particularly Melbourne and Sydney—with increasing population growth and supply of housing not keeping up with it, you've got upward pressure on prices. But I would say that in the last three or four years we've had an increase of, say, 20 per cent in house prices in Melbourne or Sydney. Maybe they've come back five per cent. Even if they come back another five per cent, people are still ahead 10 per cent in their equity in their homes.

We still have very low interest rates. Most of our customers, on their mortgages—we've held our standard variable rate for the time being—are paying four to five per cent. And I think the really significant thing is unemployment. We saw yesterday the unemployment rate, pleasingly, fall to five per cent. I mean, that's virtually full employment in the economy. So whilst we've got some pressure on real wages not increasing, I still think that overall we should be a bit more sanguine about the housing market, particularly in Melbourne and Sydney. But it's coming off quite some growth, and employment prospects for people and the rates they're paying are still strong and still low.

**[Faye Andrews]**

**Mr THISTLETHWAITE: Mr Thorburn, I just wanted to raise with you the case of Faye Andrews. Faye is here in the audience.**

**Mr Thorburn : And I'm seeing Ms Andrews this afternoon.**

**Mr THISTLETHWAITE: Okay; that's good. She's given me permission to raise her case. I'm glad that you're seeing her this afternoon. Ms Andrews was a customer of the National Australia Bank for 46 years, and in November 2010 her loans were due for refinancing. She had never been in arrears, never missed a single payment, but was refused refinance with the contract manager relying on a clause in her contracts that read, 'The bank may cancel the facility at any time, whether or not you are in breach of this agreement.' My question relates to this. Ms Andrews' case—and I suspect many of the cases that that you're dealing with at the moment—related to the global financial crisis, the downturn internationally and the tightening of credit that occurred in the wake of that. Now, that didn't originate in Australia, and I'm certainly not pointing the finger at NAB or any other Australian bank, but that downturn was caused by bankers. It was caused by your industry in the United States, and it had a massive effect globally on just about every economy, and potentially every person, throughout the world. Why couldn't you look at a case like this, where someone has been a loyal customer for 46 years, and say to them: 'You know what? Our industry caused this. Our industry is the reason why you're in this difficult position. You've been a loyal customer for 46 years, we're going to work with you and give you a break and try and get you out of this situation.'**

**Mr Thorburn : That's what we should say and do.**

**Mr THISTLETHWAITE: So why didn't it happen? It didn't happen not just in this case, but in thousands of cases.**

**Mr Thorburn : So I'll see Ms Andrews this afternoon. I think some of those clauses you read out, Mr Thistlethwaite, are good examples of very legal, overbearing statements that we've got to review and change, and I will take that forward. I just want to come back to—whatever caused the global financial crisis, we've got to treat every single client with respect and understanding, and that's the job of our bankers. Whatever the problems are, that's what we have to step into. That is the role of a banker: when a customer goes through a difficult time, to work with them.**

I think more broadly our bank did a very good job of that through the GFC, where there were a lot of clients going through stress and, actually, we continued to extend credit to them to help them with their working capital in very uncertain times. So I don't agree with the inference that we didn't treat customers right and we bailed out on people. I think the facts actually are we supported a lot of them. However, I think in some cases we will have got it wrong and we will have used clauses inappropriately to effect change.

Mr THISTLETHWAITE: You mentioned earlier the cost of capital. Your bank obviously sources funding from international markets. One of those markets would be the United States, I'm assuming?

Mr Thorburn : Yes.

Mr THISTLETHWAITE: What I don't think anyone understands about the global financial crisis is that it was caused by greed and profligacy in banking and a reduction or removal of regulation by a conservative administration in the United States, particularly around responsible lending. The people who caused that in their activities that had a ripple effect throughout the whole of the world, not one of those executives went to jail for what they did to international finance and international banking. As I understand it, there was one trader in the United States, related to hiding the true position of Lehman Brothers, that went to jail. Can you understand why the world is frustrated with banks at the moment and why we need a royal commission when things like that happen? Sure, many of them lost their jobs, but losing your job on $4 million or $5 million a year with a $1 million handshake on the way out the door isn't too big a problem. It's a hell of a lot of a problem for someone who loses their house, their business or their farm because of what happened in the United States rippling through the economy and affecting them here. What's your response to that?

Mr Thorburn : The global financial crisis was a very complex scenario caused by complex products and some misconduct of people—I agree with that—but it was 10 years ago. We have to look at our market today. Our banks went through that. Our economies kept growing all through that partly, I think, in many cases because banks did do the right thing and helped extend credit.

I want to come to the point of substance here: **where we've made a mistake, as a bank, we need to put it right for customers.** There will be some grey areas in that, but I want us to step into that and at least work through it with clients to try to correct it if we can. In many of the cases before the royal commission, these were not intended to be the outcomes. We did not intend to charge for a service and not provide it—that was not our intention. What we did wrong was we didn't implement that properly, we didn't have proper controls and we didn't raise them and fix them fast enough. I think the intent was never there to do some of these things, but they happened, and we have to own up to them.

The Australian banking system remains strong from capital, liquidity, credit rating and access to overseas markets to help the wheel of commerce turn in Australia. We're still extending credit to businesses and keeping depositors' money safe at the same time. There are things that we need to face into here around misconduct and fraud, which are totally, totally unacceptable. We've got to deal with those people firmly, and the police and others do. In many cases we didn't mean for it to happen, but we've got to fix it faster and we've got to own up to it. In individual cases, we've got to sit down with clients and see if we can work through it with them. That's what I'm trying to do now in 2018 in NAB: trying to move us forward and trying to step into acknowledging the cause of some of this. It has happened over a long period of time, and we're starting to course correct, which is good.

Mr THISTLETHWAITE: I just want to respond to that answer. You said that the global financial crisis happened 10 years ago. Yes, it did, but these people in the room behind you, and many other thousands of Australians, are still feeling the effects of that in a big way.

Mr Thorburn : I don't agree with that. We made mistakes. I'm just saying I don't think that was the cause of it. **We haven't treated customers right—full stop.** It's not because of the GFC.

Mr THISTLETHWAITE: What also gets me is that there appears to have been, in the history of the last 50 years or so, a well-worn path to these financial downturns occurring: the economy is going well; everyone is doing well in banking; conservative governments are removing regulations at the behest of big bankers, particularly Wall Street; the greed and the profligacy starts up and then the whole system falls apart. Whoever thought that—bundling up bad mortgages, selling them as securities internationally and having ratings agencies saying that they're AAA wouldn't eventually fall over and affect everyone—would have had to have rocks in their heads, wouldn't they?

Mr Thorburn : And that was one of the causes of the GFC. But in Australia there is a very simple mortgage market. The banks, by and large, retain all those loans on their balance sheets. I think it is quite a different market.

Mr THISTLETHWAITE: But your bank and every other bank in Australia and local governments were trading in these things. They were buying and selling these things—every superannuation fund—that the average Australian is affected by. What concerns me, and what no-one is talking about at the moment, is that we seem to be walking blindly down this path again, because, in the United States the Trump administration has committed to reviewing Dodd-Frank. You all know that Dodd-Frank was put in place to rein in some of the excesses of Wall Street, to put in place that financial regulation to ensure that the irresponsible lending didn't occur again, that those practices that we mentioned earlier, that fraud and that illegal behaviour, didn't happen again. The Trump administration is now reviewing that. It appears that we're starting to march down the path again of the whole problem that led to the global recession through the global financial crisis.

I want to ask you this question: what's your view? What's your bank's view, given that your bank trades with the United States, where a lot of this was caused? What's your bank's view of what the Trump administration is doing by reviewing those regulations? In his words, Trump's vowed to 'do a number on Dodd-Frank'.

Mr Thorburn : I don't know enough about that market and the regulations that the banks are subject to. I've never operated or worked in that market.

Mr THISTLETHWAITE: Doesn't your bank trade billions of dollars with them?

Mr Thorburn : We raise short-term money for our clients, ultimately, in the US market, because it's a very large economy.

Mr THISTLETHWAITE: Surely, if you're doing that, you have a responsibility to your shareholders and your customers, you have an obligation, to know what's going on over there in terms of the regulations that you're dealing with, particularly when a lot of that caused the latest downturn in the global economy—and your bank and your shareholders and your customers?

Mr Thorburn : David may want to add, but I can't keep up with the tweets, and it's not a market that—I don't run a bank there. We raise relatively limited amounts of money in the US. I want to come back to our market. I think we're course-correcting, Mr Thistlethwaite. I think we've got more regulation today than we've had, yet we've still got problems. I think they could be simplified, and we could be held to account a bit more.

Regulation is important because it sets boundaries and it sets consequences. I absolutely believe that. But, in the end, it comes down to the management and board of a bank, and a company, saying: 'Our job here is to build a long-term business where our customers are the focus. They can trust us. We will do the right thing for them. If we do the wrong thing, we'll own up and fix it. We'll treat our employees well. We'll give them good careers. We'll produce a good return for shareholders.' And we build a simple, sustainable bank based on those things, where we take a five- to 10-year view, not just a one-year view, and build a business like that.

In the end, that's what will make our business environment, our business culture and our banking market safe and strong. Regulation will help, but we can see that too much regulation is a problem and too little is a problem. Regulation isn't the panacea. It's running a bank for the long term with customers at the centre, with simple products and services, and being prepared to take a little less profit, particularly if you need to invest or fix problems, in order that you can win customers' trust over the long run. That is what I believe we're doing and we're moving towards.

Mr THISTLETHWAITE: But—I will finish up with this question—the formula for these things, and it's well and truly a well-worn path now, is removal of that regulation that's put in place to protect customers and indeed to protect shareholders. It appears that the United States is going down that path again, and we all know how important the United States economy is for the international economy. Has your organisation, or the Australian Bankers' Association as the umbrella organisation, even questioned, let alone condemned, what the Trump administration is looking at doing?

Mr Thorburn : We haven't done that, and I don't think—

Mr THISTLETHWAITE: Why not? If you're trading with them on a daily basis, and we can all foresee what could happen again, why not?

Mr Thorburn : Where would I draw the line? We also have a branch in London. Is it my job to comment on Brexit and the rules and regulations and—

Mr THISTLETHWAITE: They're going the other way in London. They're not going down that path of removing regulation. They're actually going the other way.

Mr Thorburn : I'm just saying that I should focus on my primary responsibility, which is to run a bank which is based in Australia, where most of our assets are, and my job is to provide commentary on regulation that parliaments in Australia would seek to put forward. That's definitely what I should be doing. But I think it's a bit of a stretch to say I should have a view on specific details in a foreign market which is a different political environment and economic environment altogether.

Mr Gall : Mr Thistlethwaite, can I just make one very quick comment on that. We are obviously, with our activities in the US, regulated by regulation like Dodd-Frank. Our experience is that we haven't yet—this is our experience—seen any dilution of that regulation. That's our experience at this point.

Mr THISTLETHWAITE: Yes, I will admit that. But it is an indicator that the review is occurring at the moment.

CHAIR: I'm sorry, Deputy Chair. I've been extremely generous. I'm going to have to hand the call over to Mr Evans.

Mr EVANS: Thank you again, Mr Thorburn and Mr Gall, for being here. I have just a couple of quick follow-up questions in the time that I've got, trying to tie together some of the questions I and Mr Falinski asked earlier about competition and how it intersects with some of these other issues, given that, to be frank, one of Commissioner Hayne's recommendations was clearly that a lack of competition goes to the heart of many of these issues. You said, in response to a question from Mr Falinski, that, over the last 20 years, your net interest margin has halved, and you see that as a sign of growing or intense competition. But I think the point that Mr Falinski was trying to make—and I'm going to try to draw it out now—is this. While your business lending has grown in quantitative terms—that is, the amount in dollar terms of business lending that you're engaged with has grown—the total amount represented by areas such as business lending has shrunk as a total portion of your book. Is that right?

Mr Thorburn : That is correct.

Mr EVANS: That has been the trend. Specifically, when you think about the growing importance of housing lending and the mortgage market in the Australian banking sector, when you look over those same 20 years of history, how has your bank's market share and the four major banks' market share in the housing lending market changed? It has consolidated, hasn't it—massively?

Mr Thorburn : Yes, it has.

Mr EVANS: So what is the current figure—80-per-cent-ish—

Mr Thorburn : Yes, mid-80s.

Mr EVANS: of all housing lending is controlled by the four major banks?

Mr Thorburn : Yes.

Mr EVANS: Wouldn't you see that as an equivalent, if not larger, indicator of the state of competition in your industry than those net lending margins?

Mr Thorburn : I think both statistics are true. Margins have halved. And the four major banks hold 85 per cent of the mortgage market. You could argue that, with the competition that's in the mortgage market—and we've got more than 50 per cent in the overall markets coming from brokers now; that is, the banks aren't originating themselves; you've got increasing numbers of fin-tech players; you've still got regional players who, I would think, the ones I mentioned, feel that they are competing quite strongly—the 85 per cent is because the banks have done a good job, overall, of providing good products and services, and the customer satisfaction of those services and mortgage products is good. That's why people aren't leaving.

Mr EVANS: Well, if that were true, I think that we would know very quickly from the switching rates between the banks, if they were available. We would see high amounts of switching—

Mr Thorburn : There are reasonably high amounts of switching, I would say, in the mortgage market. I think that is what is happening, and that is why we are trying to focus on our existing clients and to keep them with us longer. That's why we've kept our standard variable on hold for the time being.

Mr EVANS: In this hearing and other hearings, you have spoken in quite strong terms about the hunger of NAB to grow your market share, to grow your customer base, to do great things and compete very strongly. I guess it surprises me a little that you couldn't speak with any great detail on what those customers switching rates look like—that is, how many customers you are taking from the other major banks—if that competition is at the heart of your operations.

Mr Thorburn : I can talk about it in total terms. We're growing our home loan market share. We're growing our business lending market share, and I reference the four to five per cent that we're growing on our business credit side. We're growing our market share. It's close to 30 per cent now. But the mortgage market is where most of that is happening. I'm quoting an end number, which is: we're growing a bit above the rate of the market. So, overall, we are gaining more than we are losing.

Mr EVANS: I appreciate that NAB probably has a slightly different story to tell than some of the other majors when it comes to business and small business lending in particular. But, taking it back a step, aren't you concerned at all for the future prosperity of the country, economic growth and so on, if business lending generally is, right now, a much lower share of your books than it has been for the banking industry in past decades?

Mr Thorburn : Yes, I think that's a good insight. What has happened is: the demand for housing mortgages has been significant—from customers. We deal with customers. We don't create the demand. The borrowing is coming from customers. And people have wanted to buy houses, as the population has grown dramatically. The business side, perhaps because it's perhaps been less respected, less nurtured and has a bit more risk, hasn't grown as much. But the numbers in our bank today, our small business growth, are pretty much in line with our—

Mr EVANS: We'll have to end it there because of time. But I certainly will put on notice a number of questions about customer switching rates in all of your major markets.

Mr Thorburn : Thank you.

CHAIR: Mr Thorburn, what do your international investors think of what has come out of the royal commission?

Mr Thorburn : There are two predominant points they make. Firstly, they're surprised by the extent of the cases of misconduct. Secondly, whilst they still see Australia and the banking system as strong and viable and progressive, it does raise some questions of risk premium because of what could happen with regulation, what could happen with compensation and what could happen with fines. As a result of that, they're probably requiring higher prices for us to borrow the money or they're a little more reluctant to get as heavily involved at the moment. It's still functioning well but the conversations are around those points. Whenever I go into meetings with them, that's what they're asking.

CHAIR: So you're saying there is an assessment of re-pricing of risk off the back of what has been uncovered under the royal commission?

Mr Thorburn : Yes—and some of the impossible implications. I think that is particularly the case with equity investors and, to a lesser extent, with debt investors.

CHAIR: Okay. Thank you. Thank you for your attendance here today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You will be sent a copy of the transcript of today's evidence, to which you can make corrections of grammar and fact. And there are also, of course, questions which have been put on notice to you, as they have to other banks as well, for you to respond to. Thank you very much. I'm very mindful of the fact that you've probably had to do a lot of preparation, as well as spending three hours here. As I've said to others, you'll probably get a questionably flattering or unflattering cartoon in the Australian Financial Review tomorrow! Can I have a resolution that the committee authorise publication, including publication on the parliamentary database, of the transcript of the evidence given before the public hearing today? There being no objection, it is so resolved. I declare the public hearing closed. Thank you.