

SUBMISSION TO THE CODE OF BANKING PRACTICE REVIEW

Thank you for the opportunity to contribute to the Review of the Code of Banking Practice (CBP).

Submission Summary

This submission argues that:

- CBP contents should only deal with significant issues. A 'significant issue' is one which addresses a concern or problem commonly experienced by retail customers across most member banks.
- Since the CBP was established, a number of foreshadowed and legislative provisions have been put in place to deal with several perceived consumer issues.
- The notion of what constitutes 'good practice and service' is subjective and changes over time. Furthermore the tremendous expansion in financial products and services delivered through a variety of channels has created diverse groups of customers with very different service expectations.
- Problems experienced by customers are predominantly driven by a breakdown in communication between the bank representative and the customer. The issues are primarily behavioural and knowledge based.
- Staff training, learning and development opportunities are the most effective way in which banks can better meet customer needs.
- The imposition of service standards on banks would be founded on a mis-understanding that customers have a consistent and homogenous view on what constitutes good service.
- To extend ABIO powers to deal with complaints which do not involve a claim for financial loss would create an administrative nightmare and be unjustified and would substantially escalate the costs of complaints management when it is unnecessary.
- Service related initiatives will always be a point of differentiation for banks in a highly competitive market place.

1. General Comments

As an instrument of banking self-regulation, the Code has played a role in articulating the banker/customer roles and responsibilities. While the Code primarily reflects existing practices it has provided a useful reference for induction and complaint training programs.

One of the key features of the original Code was the complaint resolution process and this is where it has been put to the most effective use.

Just how effective it has been in improving community understanding of the customer/banker relationship is not known, but it would be fair to say that customers' reliance on the Code for dealings with their bank has been negligible.

In its year of review, we find that much of the original content continues to be standard banking practice, with some provisions now being enshrined in more detail in legislation or other Codes of Practice.

This outcome raises the question of what the future role of the Code should be? If the Code is to be effective today it needs to be able to add to the existing body of knowledge and guidance for customers and banks on significant issues. In other words, it should not duplicate the coverage of other regulatory instruments and should not address issues not demonstrated as important to a significant proportion of retail customers.

One of the key factors the review of the Code needs to consider is that there have been two decades of substantial accelerated growth in banks' capacity to service customer needs. The enormous growth in the number of products and services offered has created greater choice and more competitive pricing for customers, but increased difficulty and complexity in execution for the banks.

The attached diagram from the Council of Financial Competition research (USA) demonstrates the challenge driven from a base of 90 USA bank products which results in 980 possible ways in which the customer can connect with their bank. The Australian experience would be even more complex given both the wider range of products and services and the choice of delivery channels and therefore the problems experienced by customers are not unanticipated.

The reality is that the pace of change and development in both products and delivery mechanisms will accelerate further and the ability of a bank to better manage the diversity of contact points and issues raised will create an even stronger competitive edge.

Additionally, the pace of regulatory change over the last 5-7 years has been extraordinary with considerable redeployment of resources in order to meet these requirements. These changes have driven IT & Operations priorities and the immediate future does not offer any relief.

2. Approach to the Review

A review of the effectiveness of the Code and its future coverage needs to rely on market research data which can validate the significance of an issue to retail customers. Banks like Westpac regularly collect and analyse data to improve processes and to determine better ways of meeting customer needs. The commentary in our submission is based on these findings. We believe this information demonstrates that the issues which customers raise are as diverse as their needs.¹

The importance of meeting customer needs is clear from market research findings: when pricing of products is very similar and product feature differentiation between competitors is marginal, the quality of banking service provided is what makes or breaks the relationship with the customer.

Customers tell us that quality in banking today means customer service and the fundamental relationship they have with us. These are the most important attributes and are the ones upon which the customer's perception of quality will primarily be determined.

However customer service and relationship expectations vary according to the comfort zone with which the customers transacts with us. Customers are not homogenous in their views of service and relationship expectations and therefore caution needs to be applied in responding to sweeping assumptions or isolated incidents used in submissions to justify inclusion in any revision of the Code.

A 'significant issue' is one which addresses a concern or problem commonly experienced by retail customers across most member banks. Only where it can be demonstrated that an issue is one of significance in this context should consideration be given to its inclusion in the Code.

To enable you to test the validity of arguments being put forward for your consideration the following information is provided.

3. Customers issues: past and present

In general terms the following statements broadly hold true across all retail customers segments:

1. Most customers rejected the old notion of banking and believe that banking overall has changed for the better. They also accept that banking has been through such a paradigm shift that any return to past practices is impossible.
2. Most customers believe that the future in banking will be an improvement on the current experience. They see their own skills improving and the bank's systems becoming more streamlined, faster and more efficient than they already are! They recognise the 'now' as a transition period, through which we all must pass.
3. Delivering customer communications in a way that they can understand, weigh-up and act upon was and is a major challenge for banks and financial service providers generally. New banking technology and the inherent personal benefits for customers continues to be the key issue for communication.

¹ All information provided is based on qualitative and quantitative research findings and if further information is requested will be provided if confidentiality is granted.

4. When comparing banking past and present, the issue of fees always arises. Some customers have difficulty in understanding that 'user pays' is a fundamental part of banking today. They do not understand the payment schedule or channel pricing which is implicit in much that banks do today.
5. There is some disparity between customer perceptions of loyalty and the way in which some banks view loyalty. Customers who have been using banking services for decades often relate loyalty to the length of time that they have been 'with the bank' and have difficulty coming to terms with the changed environment. Westpac perceives loyalty in terms of the depth of the relationship the customer has with us. We show our loyalty to these customers by providing savings on the cost of banking and a higher proactive level of service.
6. When dissatisfied with the level of service they are receiving customers are today more likely to initially downgrade the depth of their relationship. Where problems with the quality of service are compounded, this usually results in customers changing banks.

4. What sorts of problems do customers experience?

Banks employing best practice approaches to meeting customer issues and concerns have the ability to analyse complaints and problem data. For example, Westpac's analytical capacity allows us to consider issues from both customers lodging actual complaints as well as customers who do not necessarily complain but do experience problems.

- 5. All Banks - customer problems and their resolution – research findings and conclusions.

These sources of data demonstrate that the level of problems experienced by customers is insignificant in comparison to the massive volume of transaction that passes through the banking system and the multiple delivery channels they use every day. The results also show that once the issue is raised by the customer, no further intervention is likely to be necessary after clarification and reassurance occurs by the bank.

Communications between the customer and the bank representative and the complexity of our infrastructures are at the heart of most problems. These issues are best addressed through staff training, smarter, more direct marketing and the provision of tailored information to the customer:

- Most banks are in the throes of developing Customer Relationship Management (CRM) systems which allow for more effective sales promotions and, as a consequence, more personal and accurate communications.
- A significant part of the training needs for front line staff is behaviour based. Competitive forces are the best driver for determining the level of training, learning and development resources that a bank wishes to invest to meet the service needs of its customers - not codification through an industry based document.

Additionally, foreshadowed legislative initiatives will also require us to more explicitly meet perceived customer needs:

- The Financial Services Reform Bill will result in formalising the advice process for retail customers through the provision of more information about the most appropriate product for their need and related fees/commission.
- The Privacy Bill requires us to formalise the ‘opt out’ approach so customers can elect not to receive marketing information.

6. Service Standards

6.1 Is there a need for a banking industry standard?

The publication of anecdotal information picked up by the media has created the impression that service standards have slipped. The reaction to such claims usually includes a call by some stakeholders to enshrine the perceived service problems into a code or some other form of prescription on the basis that this provides the panacea.

The reality today is that, while network changes have changed the way in which banks service their customers, customer views on what constitutes quality service have also changed with the demographics and lifestyle of Australians. Not only have they changed but the bar which defines service standards has been raised as a consequence of more intense competition.

Westpac is constantly striving to meet and exceed contemporary views on service standards as customers become increasingly aware of service standards from greater competition and choice between providers of financial products and services thereby increasing their expectations. The competitive argument is a simple one. For those organisations that do not strive to reach even the current expectations of their customers, let alone the increasing standards, they will eventually disappear from the customer’s consideration list when quality is an issue.

The best mechanism for continuous improvement in service standards is competitive forces because:

- Self regulation of service standards through CBP is not a key driver for progressive improvement
- The establishment of service standards can potentially narrow progressive improvement to only those issues for which the bank is publicly held accountable
- Customers have differing views on what constitutes service. Their perception will depend on many issues, including their lifestyle and needs, familiarity with new electronic mediums, ability to compare, their personal experience with past levels of service, etc.

- It is difficult to compile a uniform set of service standards that would meet most customer needs because customers do not have a uniform view on what constitutes quality service. Each bank would have a different perspective on a standard which meets their customer profiles .
- Regulatory reporting already requires data to be provided and reporting on service standards is a further intrusion and distraction of resources.
- If a bank does not meet customer expectations of service, customers will shift or change their banking relationship.
- Root cause or systemic analysis of complaints/problem data is a best practice business management tool and a far more effective mechanism for improvement than service standards.

6.2 Bank Specific Service Standards or Customer Charters

This submission argues that the notion of what constitutes 'good practice and service' changes over time and, as stated above, is very much dependent on individual judgement.

Individual banks are in the best position to determine whether the establishment of service standards or a service charter is appropriate for their customers since nothing at present precludes a bank from establishing such a feature. The impediment to implementation is that the usefulness of such an instrument is not apparent, since market research results reflect a weak response from customers unless designed specifically for them and their banking relationship. The diversity of customer views on service makes such a test very difficult.

If service standards or customer charters were considered as part of CBP then such instruments should be excluded from the ABIO mandate.

To suggest that the role of the Ombudsman should be extended further to handle complaints which do not entail financial loss to the customer and deal with issues relating to the quality of service or service standards would be to create an administrative nightmare.

Many of these complaints would deal with highly competitive bank policy issues such as fees and charges, interest rates and decline of credit applications. On such matters customers shop around to ascertain whether a better deal can be struck with a competitor and if so the business is transferred or created.

It would also involve the Banking Ombudsman in matters which are best dealt with by the banks themselves, since outcomes of these matters often necessitate clarification with the customer, an apology, advice on how to cut the cost of their banking or a review of the relationship with the customer.

3 August 2000