Session 1A
Royal Commission Analysis: Where do we go from here?

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Where we are...


- Royal Commission into the Misconduct in the Banking, Superannuation and Financial Services industries established 17th December
- Round 1 of public hearings – Consumer Lending Practices
- Round 2 of public hearings – Financial Advice
- Round 3 of public hearings – loans to SMEs
- Round 4 of public hearings – remote and regional communities
- Round 5 of public hearings – superannuation
- Round 6 of public hearings – insurance
- Round 7 of public hearings – policy
- Interim report published by Commission 28th September
- Final report to be published by the Commission 1st February 2019
The Interim Report

The report looked at the first 4 rounds of hearings which focussed on:

1. Consumer Lending
2. Financial Advice
3. Small and Medium Enterprises
4. Regional and Remote Communities
The Key Principles

1. Obey the Law.
2. Do not mislead or deceive.
3. Be fair.
4. Provide services that are fit for purpose.
5. Deliver services with reasonable care and skill.
6. When acting for another, act in the best interests of that other.

"the very simple ideas that must inform the conduct of financial services entities"
Post Royal Commission world

New concepts

• Conduct Risk Framework
• Vulnerable customers
• Product governance
• Community expectations
• Toxic (products/practices)

Outdated concepts

• Industry practice
• Duty to shareholders to maximise profits?
• Vertical Integration?
• Volume based commissions, trail commissions?
A Proactive Approach

1. Complaints
   1. Root Cause Analysis
   2. Systemic Issues
   3. AFCA

2. Risk Acceptance
   1. Formal Process
   2. Approvals
   3. Monitoring

3. Regulatory Interaction
   1. Formal Process
   2. Tracking
   3. Review & Monitoring

4. Product Governance
   1. Product Lifecycle
   2. Monitoring
   3. Removal

5. BEAR
   1. Accountability Maps
   2. Accountability Statements
   3. Training

CONDUCT RISK FRAMEWORK
Mark Worthington, head of the bank’s internal audit function wrote to the CBA CEO:

“Firstly, I must say that I agree that the [APRA Prudential Inquiry] report was well-written and fair. There are many references in the report to findings made by my team over recent years and references to us uncovering many of the control weaknesses that were used to substantiate the APRA conclusions. This is a double-edged sword, for it lends credibility to our work, but has now led to much public criticism of the organisation. “Frankly, there is not much in the APRA report that audit has not said before, but perhaps we need to improve in the area of articulating our views.”
What next for IA Functions?

RC impact
Status of IA
Governance
Resourcing
Reporting
Regulator engagement
IA post Royal Commission

Future state
1. New scope areas
2. Findings
   a) Root cause analysis
   b) Management responses
   c) Customer impact
3. Relationship with AC
4. Thematic reviews

Legacy
1. Low risk areas
2. Compliance focus
3. Historical focus
4. Financial impact
Over the horizon

- Business & regulatory landscape
- Whistleblowing
- Governance failures – what should IA do?
- Budget & resource constraints
- Technology solutions
Thank-you