



# Account Suitability

An examination of Compliance with Clause 14 Code of Banking Practice

Summary of research undertaken by University of Melbourne.  
Business Consulting Subject (Faculty of Business and Economics)  
Semester 1, 2011.



## ABOUT THE CCMC

The Code Compliance Monitoring Committee (CCMC) was established pursuant to Clause 34 of the Code of Banking Practice (the Code). Its primary functions are to monitor compliance with the Code by subscribing banks (Banks) investigate and determine allegations that the Code has been breached and monitor any other aspect of the Code referred to it by the Australian Bankers Association.

The CCMC's compliance program reflects the objectives of the Code and comprises three core activities namely: monitoring, investigating and influencing.

The CCMC's influencing role includes the conduct of Inquiries for the purpose of monitoring compliance with a particular aspect or aspects of the Code.

Under Clause 9 of CCMC Association Constitution, the CCMC is able to use a range of investigative and monitoring techniques when conducting these Inquiries, including:

- requests for information from subscribing banks
- on-site compliance visits, and
- market research activities, such as mystery or shadow shopping, surveys and forums.

The Constitution also allows the CCMC to engage external experts to assist it in this role.

The findings of CCMC Compliance Inquiries are provided to all participating banks to influence and encourage positive changes in banking practice and promote continual improvement in standards of service in the banking industry.

The CCMC may publish the findings of its Compliance Inquiries in a report. These reports do not identify individual banks or consumers.



## **BACKGROUND TO STUDENT RESEARCH**

The CCMC is involved in hosting undergraduate students from the Melbourne University Business Practicum. This full semester study involves a group of students from the top five to ten percent of the Business and Economics Faculty.

Students apply for admission to the Subject Director and if successful work on a 10-week project to apply their skills and collective knowledge in completing business projects of strategic importance for industry, community service and government organisations.

## **PURPOSE AND SCOPE**

### **What was the purpose of this research?**

The purpose of this research was to review the banks' interpretation and compliance with Clause 14 of the Code of Banking Practice (Code). Clause 14 is documented as follows:-

“If **you** tell **us** that **you** are a low income earner or a disadvantaged person (regardless of whether you are an existing or prospective customer but not if you are a **small business**), **we** will provide you with details of accounts which may be suitable to your needs. **We** will also do this if **you** ask for this information or if, in the course of dealing personally with **you**, **we** become aware that **you** are in receipt of Centrelink or like benefits.”

### **What did the students consider to be in scope?**

- All Code subscribing banks;
- Websites of all Code subscribing banks;
- Relevant information on bank accounts classified as 'basic' between 1 April 2010 and 31 March 2011;
- 34 bank branches in areas in Victoria that have a high percentage of welfare payment recipients and a low average weekly income.

## **RESEARCH METHODOLOGY**

The students divided the project into four distinct phases:-

1. A bank audit survey across all 13 Code subscribing banks;
2. A mystery shopping exercise across 8 Code subscribing banks
  - 34 exercises in branch
  - 8 via telephone banking;
3. Interviews with financial counsellors
  - 10 interviews with financial counsellors from various community groups;
4. A review on the visibility of basic banking products (both in branch and website).



Some banks were excluded from the mystery shopping exercises for reasons such as lack of physical branches in Melbourne and whether their main customer segment included low income earners.

## **KEY STUDENT FINDINGS**

### **1. Bank Audit Survey**

- Most banks have in place policies and procedures in relation to account suitability, and regularly base eligibility requirements on Centrelink benefits;
- All banks have training programs in place to ensure that staff are well informed on the features of all available accounts (including basic accounts);
- Controls are in place at most banks to monitor compliance with Clause 14 of the Code. These controls include internal and external audits, compliance reviews and online training.

### **2. Mystery Shopping Exercises (In Branch and Telephone)**

- The majority of bank representatives (94%) who were queried in branch were able to determine the customer's needs reasonably well, and only a small percentage of branch staff (6%) failed to identify the customers' needs as a low income earner or disadvantaged person;
- 85% of bank representatives in branch were able to provide some form of promotional material for basic accounts, and provide further details as to why the account would be suitable (for eg. minimal or no account keeping fees, unlimited transactions);
- There was a slight inconsistency in the accounts offered within some banks;
- Telephone banking staff have solid knowledge of bank accounts that would be suitable for a low income earner or a disadvantaged person.

### **3. Interviews with Financial Counsellors**

- Of the ten financial counsellors from Victoria interviewed, a significant discrepancy was found between the counsellor's client base which was eligible for a basic bank account, and those that were using basic bank accounts (37%);
- The students considered that this was most likely the result of customers not communicating their needs correctly to the banks and some banks' possibly failing to identify customers' needs and displaying appropriate marketing material.



#### **4. Review on the Visibility of Basic Bank Accounts**

- Overall visibility of basic banking products on official websites of Code subscribing banks is good although there are some differences in filtering tools between different banks;
- The majority of banks had a tool available on the website in which the customer could compare and contrast different accounts, including basic bank accounts;
- Visibility of basic account information at branch level was somewhat less consistent with only six of eleven branches visited displaying any marketing material on different basic accounts.

### **CONCLUSIONS FROM STUDENTS**

Clause 14 of the Code involves a commitment by the banks to ensure that low income earners are provided with details of accounts that are suitable to their needs and requirements.

The students concluded that Code subscribing banks have strong policies and procedures in place in relation to those customers who may be eligible for basic bank accounts. Both mystery shopping exercises suggested that bank staff have good knowledge of account products and features. This product knowledge along with access to current marketing and promotional marketing material remain as integral components of ongoing compliance with the Code.

### **DISCLAIMER**

The University of Melbourne, its staff and participating students will bear no responsibility whatsoever for any loss or inconvenience to the client organisation and/or any third party, which may arise through use of the data and/or recommendations from the Business Consulting exercise and Final Report.

### **FURTHER ENQUIRIES**

Should you have any further queries, please do not hesitate to contact the Code Compliance Monitoring Committee on 1300 78 08 08 or [info@codecompliance.org.au](mailto:info@codecompliance.org.au).

