



ASIC

Australian Securities & Investments Commission

Trust and culture: What consumers want

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CHECK AGAINST DELIVERY

Introduction

Good afternoon, ladies and gentlemen. It's a pleasure to be invited to speak at this year's Customer Owned Banking Convention here in Darwin.

I've been at ASIC since around the time when financial institutions – including credit unions, building societies and friendly societies – transferred from the previous state supervisory regimes to Commonwealth regulation and supervision.

Over the last 15 years, ASIC has enjoyed a productive and cooperative relationship with the mutual banking and friendly society industry. Nowadays, ASIC and your industries interact primarily through regular liaison between ASIC's Deposit Takers, Credit and Insurers stakeholder team and the Customer Owned Banking Association (COBA), but ASIC also welcomes one-on-one engagement with individual entities where the need or desire arises.

I believe that what ASIC said 15 or so years ago about your industry remains a true reflection of your industry today – that is, your presence in the Australian market today reflects a long history distinguished by the core values of mutuality, cooperation and self-help.

ASIC recognises that you are subject to the same high standards of prudential regulation by APRA as your publicly listed counterparts. We recognise that the mutual banking and friendly society industries are diverse in size and location, in products and services, and in your customers' (your *owners'*) expectations about your roles and responsibilities. We acknowledge that you are designed and run for the benefit of your members.

Culture

Working for the benefit of your members leads me to something I want to really focus on today. Something that you will have seen or heard ASIC talking about a lot lately... and that's culture and trust in the financial services industry.

We have all seen examples in recent times (both locally and internationally) where consumer trust and confidence in our financial institutions has been tested, and sometimes significantly eroded, due to poor behaviour by people and institutions in whom we should be entitled to place a great deal of trust and confidence.

I don't propose to go into these examples in any further detail today, but I will say that these events have helped shape one of ASIC's current strategic priorities – that is, 'promoting investor and financial consumer *trust and confidence*'.

As ASIC has noted in its recently published Corporate Plan, culture influences and reflects the behaviour of individuals within an organisation. Where culture is poor or not aligned with customers' reasonable expectations, the conduct of the entities ASIC regulates can lead to less than satisfactory consumer outcomes. *The mutual industry is not immune from these risks.*

At ASIC, we expect firms to 'do the right thing' by their customers and comply with the law.

We are considering cultural indicators in our surveillance work; while we are specifically looking at culture as part of our surveillances, this is not new – ASIC has always considered indicators and factors that drive poor behaviour. What we are doing in this culture work is 'joining the dots' on the very concrete aspects of the way firms operate to give us a better picture of their culture and how that might affect consumer outcomes.

But our biggest focus when it comes to culture is to encourage organisations to reflect on their own culture, and how that might be going wrong and enabling or encouraging unfair treatment of investors and consumers.

Poor culture, together with poorly designed financial incentives, can be an indicator and a driver of poor conduct. Identifying poor culture can help with detecting not just individual instances of misconduct, but broader, more systemic problems.

A positive culture, and the conduct that can stem from this culture, is fundamental to community trust and confidence. This, in turn, can have a positive impact on an organisation's *growth and success* and help distinguish itself from others.

The way forward – opportunities and challenges

I believe that you, as mutuals, are well placed to take advantage of your unique structures to nurture consumer trust and confidence, because the very foundations on which you are built are all about mutual wellbeing and cooperation. Consumer trust, confidence and

engagement in the financial industry are not things that can just happen automatically – you should continually think of this as a work in progress.

Since the transfer to Commonwealth regulation and supervision, much has changed in the financial services industry. Two things that have changed, and continue to change, are how we understand consumer behaviour and how consumers interact with their financial institutions.

How we understand behaviour

ASIC, similar to other regulators around the world, is keenly interested in understanding how behavioural biases or inclinations can impact on a consumer's decision-making and problem-solving processes.

As human beings, we all have biases. These biases affect our decisions, alongside other factors – such as our upbringing, social circumstances, level of financial literacy or education, personal preferences, and life stages.

ASIC is aware that consumers can be subject to a number of behaviour traits that make so-called 'rational' decision making difficult at times. For instance, consumers can suffer from choice fatigue/overload, or their judgement may be clouded by a tendency to substitute particular information with other, potentially irrelevant attributes (such as the approachability or influence of a particular staff member).

Consumers might also be overly optimistic about the future or could be swayed by how many of their peers have taken a particular action. All of this can be further aggravated if a consumer has time constraints or a lack of motivation. These tendencies can lead to consumers taking unreliable shortcuts when making decisions.

Biases are often automatic and unconscious. They make consumers susceptible to making poor financial decisions. The existence of consumer biases means that 'reams of paper' correcting information asymmetry won't always enable consumers to make the best decisions.

We believe industry has a role to play in understanding how behavioural biases impact consumer decision making, and using that understanding for the greater good – for doing the right thing by your customers so that they are in the best possible position to make responsible financial decisions.

Of course, ASIC expects consumers to play their part in this, also, by being engaged and taking responsibility for decisions that affect them, but this will be much more likely if an organisation has a culture of doing the right thing by the customer and 'nudging' them in the right direction.

What I want to put to you is – how can you assist consumers to counter these natural tendencies and promote informed and sound decision making?

Technological change

Another area of increasing challenge and opportunity is the growth of technology. Technology has facilitated customers' around-the-clock remote connection with their financial institutions, meaning consumers are perhaps more demanding now than ever before – expecting speedy transactions and response times, and for their interactions with their financial institution to work seamlessly.

Intense competition is being driven, in part, by an increasing level of innovation by start-up financial technology businesses who seek to understand what consumers want and to implement ways of meeting those wants and needs.

At ASIC, we are working through our newly established Innovation Hub to embrace and facilitate innovation, while also seeking to ensure that new technologies do not operate to the detriment of consumers.

With access to technology, consumers have an increased ability to act collectively and communicate broadly. When consumer expectations are not met, consumers will invariably make that publicly known (whether their views are based on sound legal arguments or not). This will only increase as our kids grow up in an age of the smartphone, online social networking and various other technologies.

Consider:

- For every complaint you receive, how many dissatisfied customers might not tell you about their grievance?
- For every dissatisfied customer, how many of their friends are they telling about their bad experience?

We think you should see this as opportunity to distinguish yourselves from others and to really give thoughtful responses to your customers, to use this as valuable data for identifying patterns to facilitate improvement to culture and customer experience. As someone recently commented to me, 'all feedback is a gift'.

Conclusion

To ensure *relevance, growth and success*, you will no doubt see the need to be innovative, collaborative and smarter. Customers today have unprecedented access to technology, and they have greater ability than ever before to be fussy about whom they do business with and to 'vote with their feet'.

At the same time, what we now know about how consumers make decisions means that we are all better placed to create the right environment for good consumer outcomes.

Put yourselves on the front foot – create a culture in your organisations to use the knowledge and technology to do the right thing by your customers and members.