Westpac
Australia's First Bank

CEO'S ADDRESS

2001 ANNUAL GENERAL MEETING

Sydney, Australia

13 DECEMBER 2001

Dr David Morgan

Chief Executive Officer

Westpac Banking Corporation

Thank you for the opportunity to address you. The Chairman has overviewed our result and outlined why we are confident of being able to continue to deliver strong growth for our shareholders.

Part of this confidence comes from our determination to front up and tackle the issues that our customers and the broader community are most concerned about and the positive progress we are making in that regard. I want to share this progress with you.

But first, let me make the unexceptional remark that the worth of every company, and the respect in which every company is held, cannot be separated from financial performance.

Our recent results then, constitute reality for Westpac. It is the reality of our business. It is the reality for you our shareholders.

We can point to a recent record of continuous achievement - tangible, measurable achievements from which everyone with a stake in Westpac is benefiting.

But for all the unarguable truth of our results, not all our stakeholders are happy. They are not happy with other banks either, but that is very small comfort.

At the core of our problem is widespread community questioning of the balance between creating shareholder value and delivering for our customers, staff and the community.

Some of our customers - too many - think our progress has been made at their expense or, at best, without benefit to them. Some do not see why we had to change.

As I said in our Annual Report, despite our positive progress, there is more to be done to restore trust and respect, and to address the dissatisfaction with our industry.

As you have heard from the Chairman, the Finance Sector Union sought to have several resolutions voted on at this AGM. In effect, the FSU resolutions call on the Board and management to address concerns about the long-term impact of customer and community negativity on the value of our shares. The Chairman has already explained why these matters could not be properly voted on at this meeting.

Despite this, you can be assured that these matters are critical ones for management. In fact, a very large proportion of our Annual Report is devoted to the public resentment surrounding our industry and what we are doing about the big issues. These include branch closures, fees and charges, and job losses that concern our customers and the community. If you have read our Annual Report, we can hardly be accused of avoiding the issues or trying to gloss over them.

We have clearly recognised that even if we have been listening, we haven't been hearing especially well. Not surprisingly, our customers are demanding that we be more accountable to them. When they take their problems to us they expect them to be resolved.

That's why we have set ourselves a goal of initially acknowledging every customer complaint within one day and then resolving them within a five-day period. We currently resolve 80% of them within that time.

The good news is we now consistently receive fewer complaints than any of our competitors and our market research shows a big improvement in our performance.

It is also claimed by some that customer services have been severely reduced as a result of our actions. We don't agree. Undoubtedly the revolution in how banking is now done has resulted in widespread community concerns. But at the same time it has substantially increased the quality and scope of services being provided. In fact, the introduction of telephone and internet banking, discount broking services, Bpay, and EFTPOS, and the provision of new and more flexible home loans and savings accounts, are just some of the ways that our services have been greatly expanded.

We can all agree on the objective of better banking services for all Australians and we are dedicated to this aim. How best to do this is the important question. Some, for example, see extra commitments on face-to-face banking, higher staffing levels, and an end to outsourcing, as the way forward. I want to set out our views.

Let me start with our staff. Any customer or community dissatisfaction directly affects our staff - hostile and disenchanted customers are damaging to their morale and confidence, corrosive to the most fundamental relationship in our business. I am very conscious of the injustice that is sometimes done to our staff personally.

Our staff have come through a continuous upheaval in technology and work practices. And they've borne the brunt of the productivity-driven job shedding.

And yet, our staff are the ones who are rebuilding the threads of common understanding and trust with the community.

For all these reasons we are determined to make our employment practices and culture second to none. We can't alter the fact that productivity is the engine of growth, nor can we reverse the very rapid shift to greater technology take-up. But we can ensure that our staff are equipped to cope with all this, and to provide them with relevant skills training to enhance their employability. And we are doing that.

We've successfully used our Learning Maps to share our aspirations and strategy and to enable staff to decide for themselves if they want to be part of it. We've also given our staff a no-nonsense guide to help them engage with the community on the contentious issues surrounding banks. And we have improved workplace conditions by going beyond maternity leave and introducing paid paternity and adoption leave, and by providing more flexible working arrangements to help balance home and work. Recently we also enhanced our services to help our people deal with personal issues and concerns that can affect their health, wellbeing and job performance.

Not surprisingly we have seen a substantial lift in staff morale and external recognition of our workplace practices.

The gradual disappearance of the traditional forms of banking is another big issue that concerns our customers and the broader community.

As to why rural branch closures were necessary - we could offer a dozen reasons, but just look at the changing shape of rural Australia. Farming operations get bigger, with fewer employees; which means fewer businesses servicing larger regions; which means depopulation, a process facilitated by vastly improved road transport.

That's the explanation. But the important thing is the corrective to ensure our rural communities continue to have adequate banking access.

Since 1998, when we found a traditional rural branch was not viable, our corrective has been to put in a more cost-efficient and hence sustainable face-to-face facility. "In-stores" we call them. We locate them in existing businesses or government premises, and pay a fee to the local business to operate them - which naturally helps sustain their existing business. Most of what you can do at a traditional branch you can do at our In-stores, and they are backed up by telephone banking services, and mobile personal, business and agribusiness managers.

We've got around 180 In-stores functioning at present, that's around 20 % of our branch network in Australia. And we're pleased with the initiative to keep our face-to-face services in rural Australia.

And while changing traffic flows, population and shopping patterns have affected the number of suburban branches, we recently drew another line in the sand. We now expect to keep around the same number of metropolitan branches and only relocate them to follow customer traffic flow.

Let me turn to another concern. Some feel that we only care about people with money. That is far from the truth.

We think that lower income and disadvantaged groups should have guaranteed minimum access to basic banking services. So we've been out there for over two years providing a social safety net for low income and disadvantaged customers – essential fee-free banking to pensioners, the disabled, students, young people, and people on social welfare.

We're also dealing with the risk that the new banking technology will leave some groups behind, the so-called 'digital divide'. Basic social equity demands that all customers should have adequate access to the more efficient and convenient electronic networks such as EFTPOS, ATMs, telephone, and Internet banking. Access for older people and people with disabilities are priorities for us. That's why we have developed a Disability Discrimination Action Plan, which we have lodged with The Human Rights and Equal Opportunities Commission to deal with these concerns.

We also actively support and encourage our staff to get involved in the community, having for some time provided them with paid leave for community activity and flexible working arrangements so they can donate their time to worthwhile causes. This includes supporting several hundred charities by providing dollar for dollar matching of any funds that are raised by staff via our widely recognised Matching Gifts program. And we have our long standing partnerships with the helicopter rescue services, the Smith Family, the Salvation Army, the Australian Maths Competition, Life Education Trust in New Zealand, as well as our indigenous community programs and so on.

We're currently putting in excess of $25 million into the community each year via our community involvement and social support initiatives.

My point in dwelling on all of the foregoing is not at all breast-beating or even defending our actions to date. As I said, they have not been sufficient, and it is clear that we need to do more.

As we get on top of these issues, deliver better services to our customers and improve our reputation, it's got to be good for our business.

There is no denying the link between successful companies and companies with strong, positive reputations. With banks it seems to me to be essential.

That's the challenge for Westpac - to make the revolution of our times work for all our stakeholders, in a way that is consistent with public expectations and the bank's long term interests.

Undoubtedly announcements of record bank profits make our investors happy, most of whom are average Australian men and women saving for their retirement through superannuation. But in the wider community many people feel that the profits come at their expense.

It is an undeniable fact today that we charge most customers for the services they use and that what we charge, by and large, reflects what it costs to provide the service. That wasn't always the case.

Charging our customers for the costs of providing the services they use, we believe, is the only fair and equitable way for us to price our services.

We’re also making our charges much more transparent on our statements and we will continue to look for ways to help provide better value for money and to lower the cost of banking. For example, late last year we cut the cost of internet banking and direct debit transactions by 60%.

We’re determined to get to a point where our customers will know if they are getting value for money, and how to get it if they’re not.

For us, addressing these customer and community concerns and accepting our corporate social responsibilities are an integral part of ensuring the sustainability of our financial performance.

To conclude, let me return briefly to our result. The key feature was the improved performance momentum over recent years. In fact, we have lifted our earnings per share growth from around 5% per annum to around 16% in the past two years. And this has come from strong revenue growth of around 9% while holding expense growth to just 2%.

On any measure our strategy is delivering. And we intend to stick to our simple but successful formula of a relentless focus on our customers; partnering to deliver low cost, global capabilities; balancing growth and returns; and sticking to Australia, New Zealand and the near Pacific Islands. In short, we are doing what I said we would do when I addressed you last year.

Our program of outsourcing by partnering with leading low cost, global specialists is a key part of this strategy. It allows us to focus on what we do best, while benefiting from the efficiency gains our partners can provide. To date we have outsourced activities accounting for around 20% of our cost base and successfully managed the transition of staff that it involved.

We also remain cautiously optimistic that the current economic downturn in the US and elsewhere will not translate into a recession in Australia. Unlike previous global downturns, Australia does not have any major structural imbalances such as: an unsustainable current account deficit on the balance of payments; large public sector budget deficits at either the federal or state levels; a distorted profit share; over-inflated asset prices; or rampant inflation and high interest rates. Added to this is a super competitive exchange rate. These should see Australian GDP growth of slightly above 3% through 2002, but still below Australia’s longer run potential of closer to 4%.

To sum up, Westpac is very much “open for business”. We’ve achieved sector leading earnings growth and returns, while delivering on our broader social and community responsibilities. And our second-to-none balance sheet quality leaves us well positioned to continue this growth momentum on behalf of our shareholders.