Westpac
Australia's First Bank

CEO'S ADDRESS

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Dr David Morgan
Chief Executive Officer
Westpac Banking Corporation

Introduction

Thank you for the opportunity to address you. The Chairman has overviewed our result and outlined why we expect to be able to continue to deliver solid growth for you our shareholders.

Part of this expectation comes from the initiatives undertaken this year to fill remaining capability gaps and enhance our sustainable growth. And part of it comes from our progress in fronting up and tackling the issues that our customers and the broader community have been most concerned about.

It is this progress that allows us now to embark on a brave initiative to revolutionize the quality of our customer service.

For all the progress we have made, and despite another record result, we are still falling short of our customers' expectations of service, which is the very core of our business. And the stark reality is that our continued success on the financial scoreboard can't be divorced from the quality of our customers' experience.

It's therefore time to move past just listening and start acting. We owe it to our customers and to you, our shareholders, to make service a top priority. We owe it to our staff who share our customers' frustration. Our very prosperity depends on it.

We have given ourselves a clear objective: to be the service leader in our industry by 2005. Not just against the other major banks but against all comers. We have put a stake in the ground. We are determined that our customers should only have to ask once in getting the service they deserve and having any problems fixed. In fact, a very large proportion of our Annual Report is devoted to our strategy for dramatically improving our customer experience.

Having to only ask once is simply said, but quite revolutionary. It requires us to rethink the way we conduct our business and above all to challenge the conventional thinking that says that this is an impossibly ambitious promise.

I want to share with you today our commitment to make this 'ask once' promise a cornerstone - a simple goal to galvanise our people right across the company.

Let me briefly look at the task in hand.

We are making solid, tangible progress. At the day-to-day product and customer contact level, our service is improving. Customer satisfaction is a lagging example, but we've seen the percentage of our satisfied customers increase recently. Some 65% of our consumer customers in Australia now say they are satisfied, up from 59% last year.

We may be at the top of the major banks in terms of a reputation for outstanding service, but only 15% of the population sees us this way. And the top regional banks continue to hold a substantial lead on us, with some 25% believing they provide outstanding service. But even this is still well below the 65% for top service organisations in other sectors.

Not surprisingly, our customers are demanding that we be more accountable to them. When they bring their problems to us they expect them to be resolved. This year we continued to receive around 4,000 complaints a month from customers. They certainly don't expect to have to approach us four or more times before their issue is even fully acknowledged. Unfortunately, we estimate this is the experience of up to 40% of our customers who encounter problems.

We've concluded we must act and act decisively.

We need to get all the building blocks of our relationships with our customers right. We need to get the basics right - without which our customers will simply write us off. And we need to deliver on the more emotional or the value-added elements of a great service experience. That's why we have a clear plan and have committed significant new investment in further improving customer information systems and in simplifying our systems and processes, both for customers and for staff.

Most importantly, we are also investing heavily in our staff to take them on this journey. We know that they are the key to how we deal with our customers.

But we don't intend to just sit by and wait for these major projects to take effect.

We also have a four step plan that will have immediate impact on getting the basics right.

First up, we understand that we must do much better at fixing problems and handling complaints.

While day-to-day service quality is critical, the number one thing that impacts our customers' satisfaction is how well we resolve their problems. One call, one contact, one solution we call it.

Up to 20% of our customers experience some sort of an issue or a problem that leaves them less than fully satisfied. Many of them feel like they are trapped in a maze – lost in the system.

In response we've laid out our aim to acknowledge customer complaints within 24 hours and resolve them within 5 days as part of our customer charter. Most importantly, we are empowering all staff to solve problems at the first point of contact. Currently we resolve between 70% - 80% of the complaints within 5 days.

The good news is that 60% of those customers who have their complaints resolved satisfactorily actually grow their business with us and are three times more likely to refer others to us. So there is real upside for us if we can get it right.

As the second step of our plan, we've undertaken a reality check on the role branches play in the hearts and minds of our customers. We now know that whilst there has been enormous growth in ATMs, EFTPOS, telephone and internet banking, and 90% of transactions are now done outside of the branch, fully 70% of our customers still visit a branch at least once every two months.

So we have acknowledged that branches are still very important to the majority of our customers - and importantly, in their opinion of us. And because they provide the most meaningful opportunity for face-to-face contact, they are crucial to identifying and meeting our customers' needs, and for fixing problems.

We started in1998 when we led the way by halting reductions in face-to-face branch services across regional and rural Australia.

And, last year we followed suit in metropolitan areas. Our current focus is on reshaping our branch features and functionality.

We now have 40% of our branch staff moved from behind the counters to front of house. And we're taking the lead in getting antiquated regulations removed that restrict our opening hours.

We have asked our customers what they want - and are launching nine, fully operational prototype branches to fully assess their recommendations. We'll monitor customers' responses to the prototypes, do some fine-tuning and then roll out the improvements right across our branch network. What this all boils down to is that the branch is well and truly back.

The third step in our plan recognises that exceeding our customers' expectations for service means taking the initiative in anticipating the needs of our customers and developing solutions ahead of time. And this is not just rolling out another product or service. It's being aware of the world in which our customers live and operate, and empowering our staff to stay that one step ahead. Let me give you a couple of examples.

Our launch of 'Westpac One' in September 2002 responded to the everyday hassle of trying to balance between different transaction and savings accounts. So, by providing up to six savings and transactional accounts in one integrated account package, our customers are now easily setting different savings targets for each account, moving money between them and monitoring it all through just one statement.

Turning to business banking, customers have very different needs at various stages in the life of their business. So rather than provide generic solutions, based mainly on business size, our approach is to identify where the business sits in its life cycle. Our relationship managers are then more able to confidently recommend the combination of solutions that best meet each business' immediate needs, while underpinning their future growth. We're also building on the unique needs of different industry sectors and, for example, have provided comprehensive financial solutions for the wholesale, pharmacy, independent schools and manufacturing industries.

And the final step in our plan is to put all 25,000 of our staff into the frontline by ensuring they are equipped to deliver outstanding service to our customers.
This means giving staff the sales and service training to develop their abilities to relate to customers and understand their needs. That means nurturing staff behaviours that define truly outstanding service in our industry. As part of this we are launching the Westpac Service Academy.

Learning is a key part of our competitive advantage and we will use it to build our reputation as an employer of choice.

We are also seeking to align our workplace better with our customers. The average age of our customers is over 45, and the over 55s are one of the fastest growing and key customer groups.
But just 2% of our staff are in this age group. So we plan to recruit up to 900 mature aged staff over the next three years, largely over 55s, as financial planners and advisers.

And early next year, everyone in the company will participate in an innovative learning exercise to make sure we are all in the frontline for our customers.

So that's the four-step plan, on top of the more fundamental changes that will take us to the forefront of customer service in our sector. It's the very core of our business and is fundamental to our sustainability.

To conclude, let me return briefly to our result. The key feature was the maintenance of the performance improvement momentum of recent years. In fact, we have delivered 15% compound earnings per share growth in the past three years. And this has come from strong revenue growth averaging 7% per annum while keeping expense growth to less than 2%, adjusted for the impact of one-off significant items this year.

The 12% profit improvement in our ongoing businesses this year included a 24% lift in profit from our Australian Business and Consumer Banking operations. Second half performance also benefited from a sharp turnaround in our New Zealand retail operations, with profit up 50% half on half.

However, the performance of the Institutional Banking operations was disappointing: profits were down 25%, a result of poor trading performance in volatile markets and, because of a small number of corporate exposures, an increase in bad debts.

On any measure our strategy is delivering. Investing $1,000 in Westpac five years ago and reinvesting all dividends would have delivered $1, 948 as at 30 September this year, representing a compound annual return of 14%. This compares to a return of 5% for the same investment in the All Ordinaries Accumulation Index. Reflecting volatile market conditions we recognise that shareholders have had a bumpy ride this year. Westpac has generally traded at a premium relative to the Australian Stock Exchange Financials Index (excluding property trusts) since the start of our last financial year on 1 October 2001.

The premium climbed to close to 13% in mid July only to see it then sharply reverse reflecting market uncertainty surrounding the acquisitions, accounting treatments and potential significant items. Following our recent profit announcement on 31 October, our shares have again begun to outperform relative to the sector with the positive market reaction to our full year profit result and outlook.

We remain cautiously optimistic that the current global economic uncertainties will not translate into a deflationary downturn in Australia. Although the housing cycle is at its peak and lending growth will moderate, we still expect reasonable levels of home lending in 2003. Balancing this, a strong pick-up in business investment is likely from the recent historical lows. This should see Australian GDP grow at around 3% next year, but still below Australia's longer run potential of closer to 4%.

Overall, our core business remains strong and our growth and efficiency initiatives are on plan. Combined with improving service quality trends, and staff commitment at global best practice levels, we expect to deliver further improvement in earnings in the year ahead. At the time of our recent full year profit announcement we indicated that we expect to deliver underlying cash earnings per share growth in the 7% to 9% range in 2003.
This remains our expectation.

Nevertheless, with global tensions and economic uncertainties remaining, we need to maintain a degree of caution on the outlook for the year ahead.

To sum up, we've achieved global sector leading earnings growth and returns in recent years, 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.