Opening Statement by Westpac CEO Brian Hartzer

House of Representatives Standing Committee on Economics

6 October 2016

Thank you Mr Chairman. I am joined today by Peter King, our CFO.

I have been the CEO of Westpac for the past 20 months. Prior to this I worked in banking on four continents, including a period just after the GFC when I moved to the UK to help with the clean-up at one of the biggest bank failures in history. This gave me a particular insight into the role of leadership in banks and the impact on people's lives and businesses when things go wrong.

I'm conscious that you have already had three presentations by other banks covering many issues. So I'll keep my opening remarks brief and make three quick observations.

The first is that the world economy still faces real challenges and ongoing financial market volatility. This affects us here in Australia.

Eight years on from the GFC, central banks are still using emergency monetary settings to pump money into their economies and lower interest rates, hoping to stimulate demand.

At the same time, banking regulators are increasing the amount of capital, term funding, and liquidity that banks have to hold, in order to build strong buffers in the event another crisis were to occur.

Combined, these factors have led to significant changes in the composition of domestic bank balance sheets. Indeed the actions we take on pricing, and how we manage both lending and deposits are all affected by these global market and regulatory conditions.

My second observation is that banks exist to support the economic growth of the nation through economic cycles.

To play that role, banks need to be resilient—which means they need both strong balance sheets and solid returns so they can absorb losses and keep working when parts of the economy get into trouble.

Everyone benefits from a healthy banking sector. It means people can own their own home, depositors' money is safe and businesses can start or grow.

Much has been said about the profitability of banks. I would just like to add two comments on Return on Equity (ROE) and Net Interest Margin (NIM).

The ROE of Westpac has fallen significantly since the GFC. ROEs that were previously in the low twenties have declined to around 14 per cent. This level of return

is not excessive but rather is necessary to ensure we are seen as “unquestionably strong”, as recommended by the Financial System Inquiry.

Net Interest Margins have also fallen over the same period.

The Net Interest Margin captures the sum of all the interest on lending and all the money paid on deposits. If margins are rising then we are growing those returns and if margins are falling then our customers are retaining more.

Over the last ten years the Net Interest Margin has fallen 37 basis points or around 15 per cent.

The point is that overall, our customers are not paying more relative to the cost of funding.

My third, and most important, observation is that a banking license is a privilege, and with that privilege comes a responsibility to earn and maintain the trust of our customers and our community, by dealing with people fairly and honestly.

In recent years it’s clear that a trust gap has opened up, and we as an industry and as individual banks need to work harder to close that gap.

Westpac isn’t perfect. In recent years we’ve had operational errors and we apologise for those. We’ve made some difficult decisions on pricing, and at times haven’t done a good job at communicating why we’ve made those decisions.

We are working hard to improve. We’ve set the goal of becoming one of the world’s great service businesses, and part of that is an ethos to fix things quickly when we get them wrong.

I am proud to say that our 40,000 people are passionate about helping customers and delivering great service.

Over the last four years, complaints are down over 65%. In the last three months, we’ve had three times as many compliments as complaints in our branch network.

We are reviewing all of our products, policies, and processes to make sure they are working for our customers. Where these reviews highlight problems, we proactively report them to our regulators, notify our customers, and put changes in place to make sure the problems can’t recur.

We have also responded to concerns about staff incentives.

In 2015, we were the first bank to remove the link between product sales and base pay in our Enterprise Agreement.

And last month we announced changes to the way Westpac tellers are paid, with incentives now based on service rather than sales. We want to remove any perception of a conflict of interest in how we serve customers. This follows changes we

made to our financial advice business, prior to the launch of FOFA, to remove conflicts of interest and increase transparency of performance and remuneration.

We have also embedded the principles of the Banking and Finance Oath into our Code of Conduct for all employees.

We did these things because they were the right thing to do to address community concerns.

But also because we want customers to feel confident to talk to us. Over the next ten years more than two and a half million Australians will turn 65, and the vast majority of them do not have adequate insurance or a well thought-through retirement plan. And while superannuation is good—at the end of the day superannuation is a product, not a plan.

Banks like Westpac—with our long-term commitment to the market, robust compliance, and strong regulatory framework—are well placed to provide this advice.

We are Australia's oldest company and first bank, with a long history of giving back to our community.

It's part of why we were recently selected by the Dow Jones Sustainability Index as the world's most sustainable bank—for the third year in a row.

Mr Chairman, Westpac has been contacted by a number of Committee members foreshadowing their interest in raising questions about two former financial planners who have now been banned by ASIC.

To assist the Committee I would like to table a document summarising the circumstances of those two cases.

In both of these cases Westpac was responsible for investigating their actions and reporting them to ASIC and we are pleased that ASIC took action in respect of those planners. Put simply, we don't think planners who have engaged in misconduct should remain part of our industry.

Mr Chairman at a speech two weeks ago I said people are saying things need to change. They do need to change. And they are changing.

We are committed to closing the trust gap. We are showing results. But we know we have more to do.

This hearing is a chance to increase transparency and to hold banks to account for the changes we are making. After all, your constituents are our customers. And in the long run, Westpac can only do well if our customers do well.

With that, Peter and I are happy to answer questions.