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# Insights into Consumer Finance

Australia and New Zealand Banking Group Limited

6 March 2007

Jenny Fagg

Managing Director Consumer Finance

[www.anz.com](http://www.anz.com)

**ANZ**

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## 2. Business Model and Capabilities

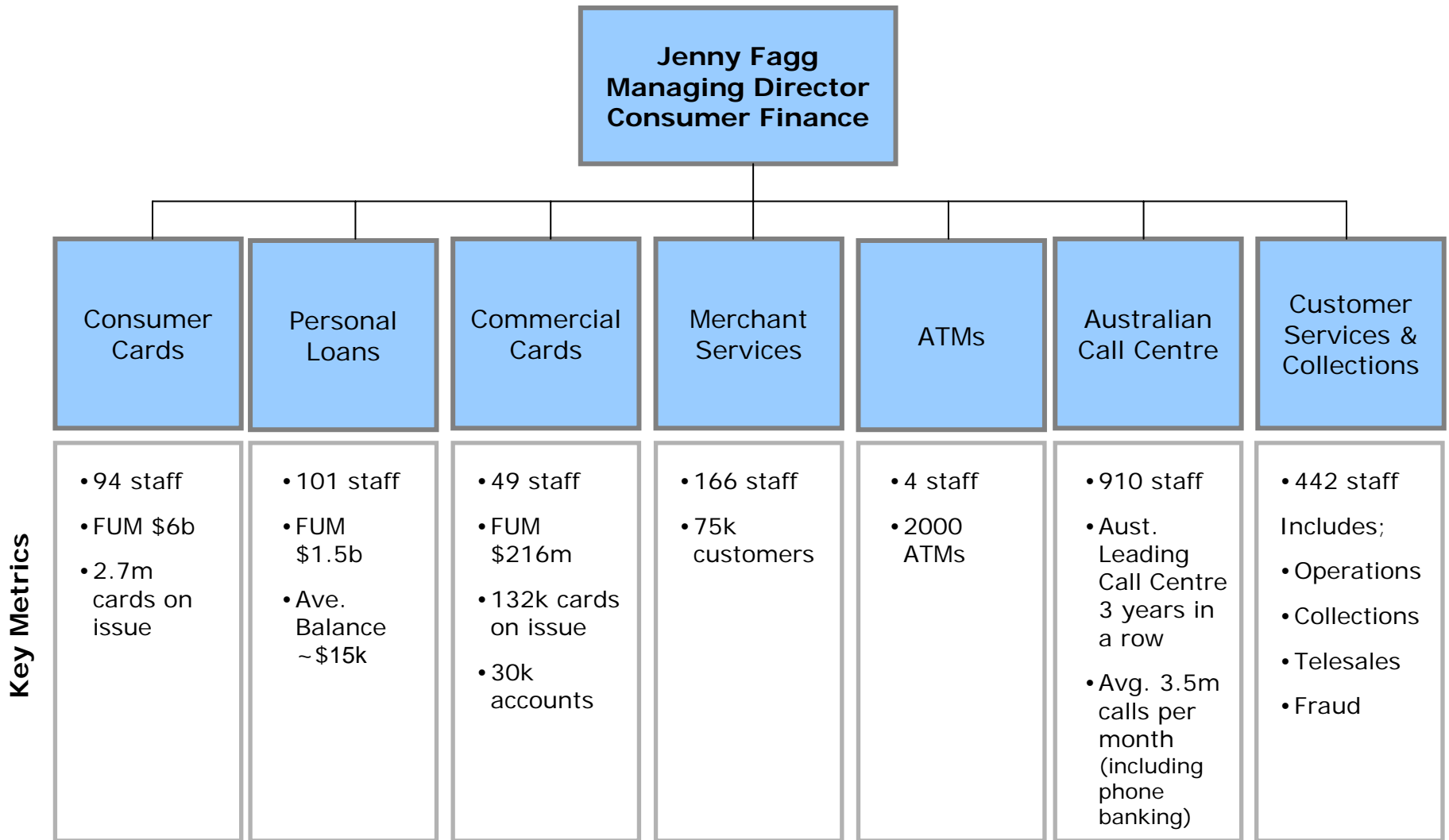
- Outline
- Brand
- Information management (smart analytics)
- Strategic agility
- Customer experience
- People and culture

## 3. Credit quality

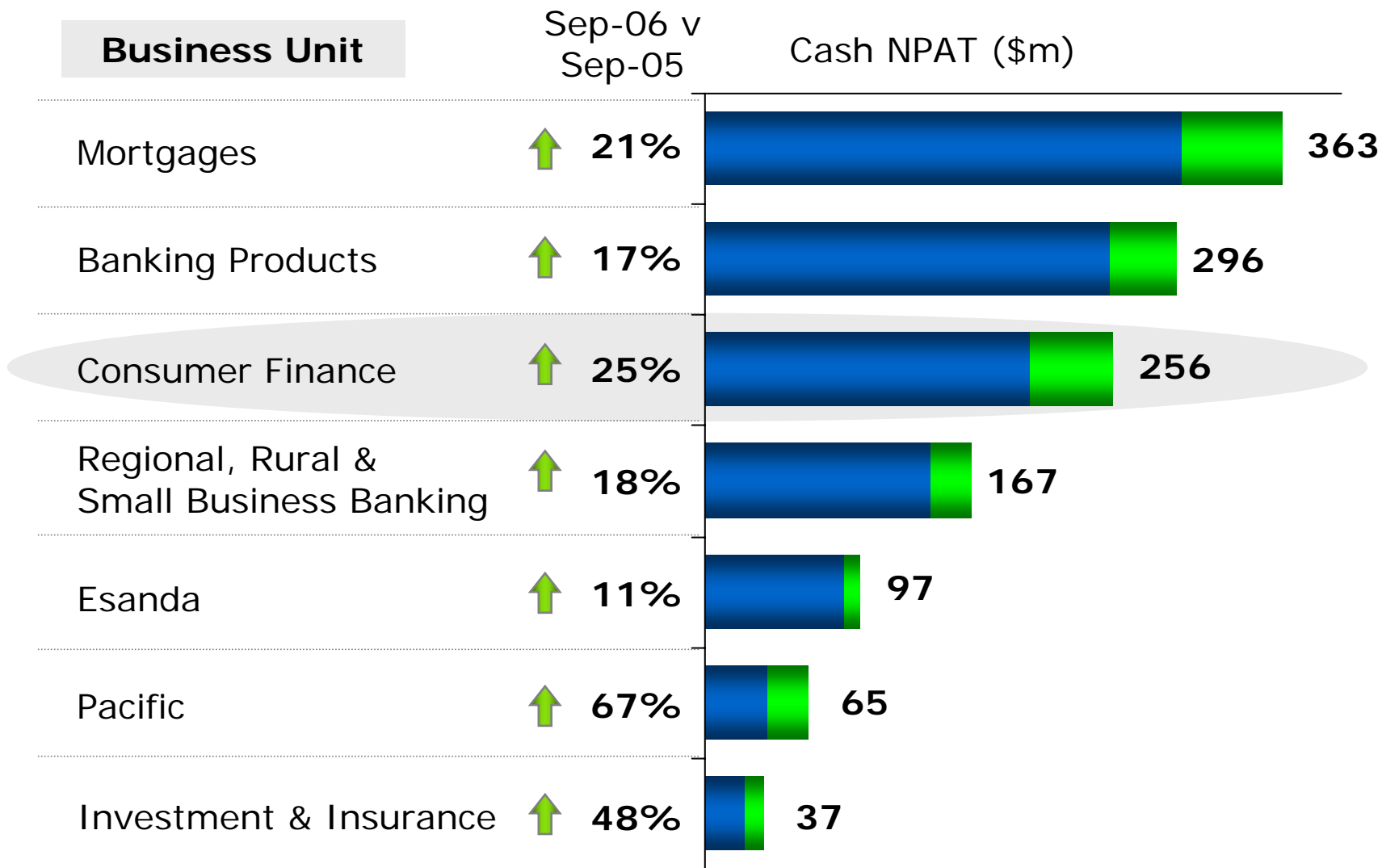
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# Overview

# The Consumer Finance Business

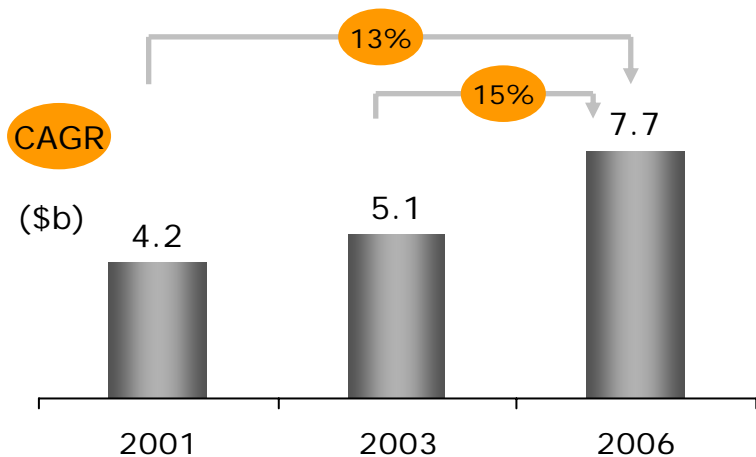


# Strong performance in Consumer Finance, within a high performing Personal division

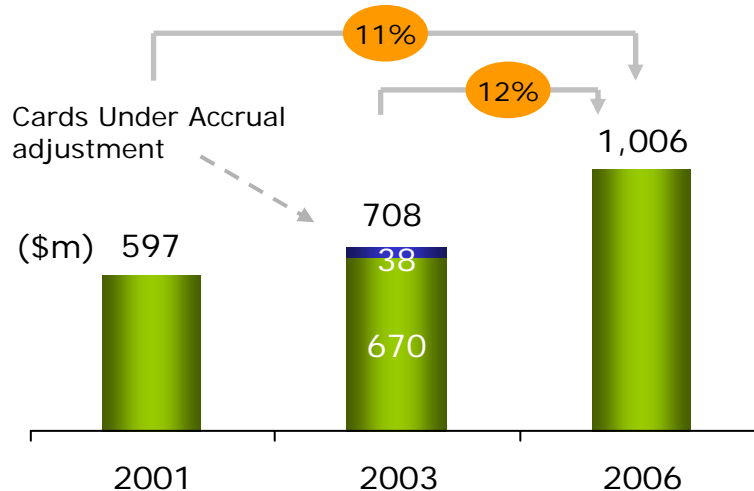


# Consumer Finance has consistently been one of the Group's best performing businesses

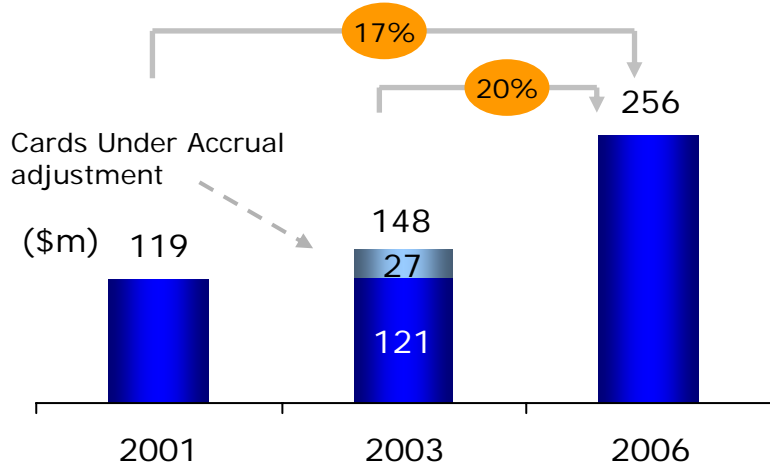
## Solid Consumer Finance FUM<sup>#</sup> growth...



## ...driving strong growth in revenue...

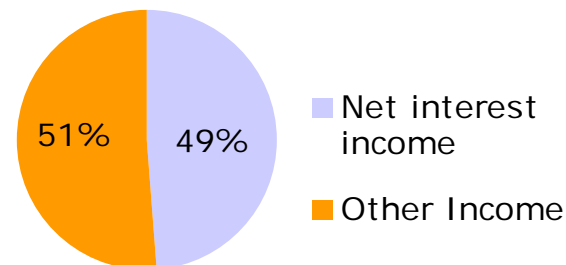


## ...and consistently strong profit growth (NPAT)



## Income evenly split between NII & Other Income

(FY06 Consumer Finance Income split)



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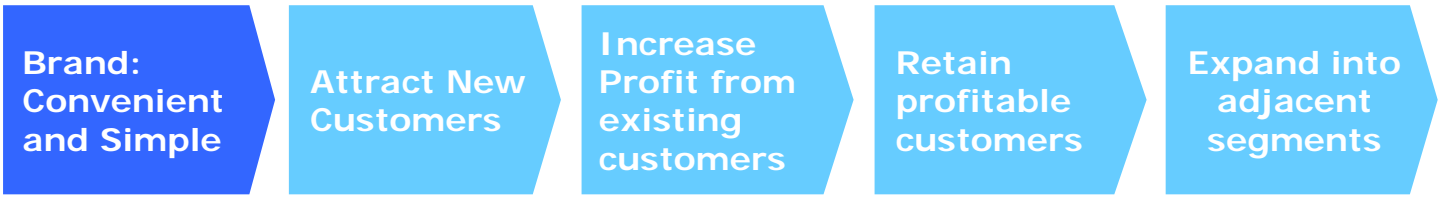
# Business Model & Capabilities

# A common business model and capabilities across Consumer Finance

## Our approach

*“Repeatable formula to rollout a series of initiatives into adjacent customer / market segments”*

5 specialised businesses: Consumer Cards, Merchants, Commercial Cards, Personal Loans, ATMs



Specialised customer service centres: ACC and Customer Services & Collections

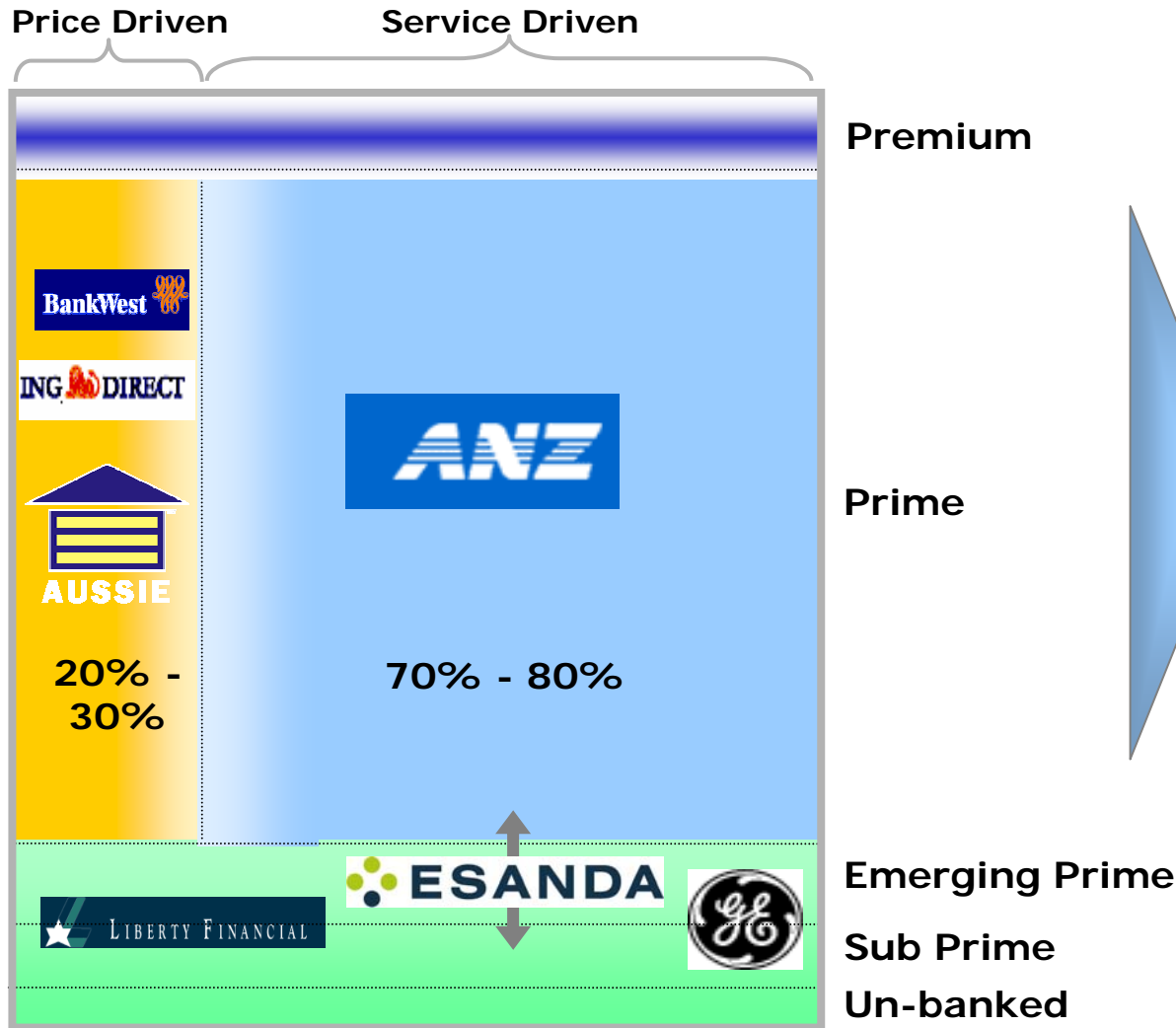


## Our core capabilities

*“Success relies on all capabilities working together”*

|                               |   |
|-------------------------------|---|
| <b>Information Management</b> | Right products to right customers via right channels    |
| <b>Strategic Agility</b>      | Adaptation & innovation of leading products             |
| <b>People &amp; Culture</b>   | Attract, develop & retain the best people               |
| <b>Customer Experience</b>    | Convenient, simple & responsible service & distribution |

# Strategy starts with clear understanding of consumer segmentation



- ANZ brand for non price-driven segments
- Other brands for other segments
- Defend share via price where necessary



# Smart analytics central to Consumer Finance success

- Significant investment in customer data management & market research:

## 1. Qualitative Research

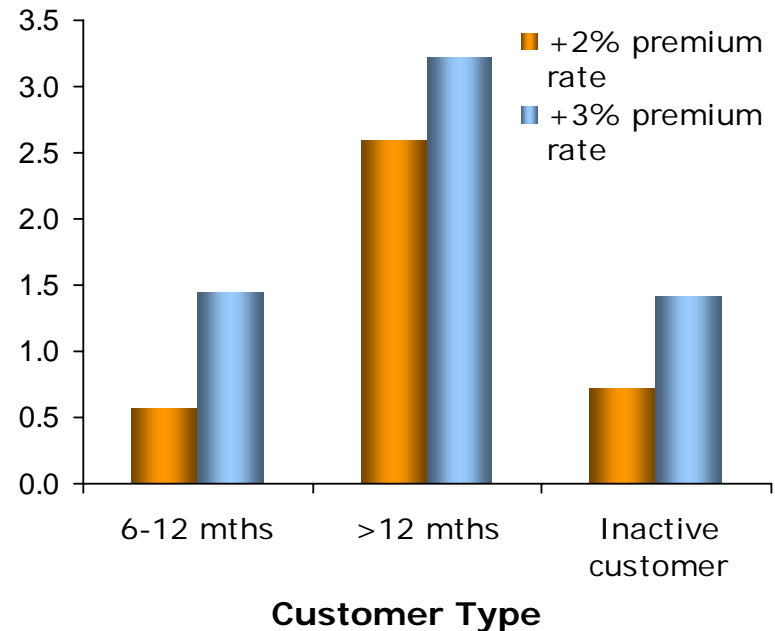
- Significant resources allocated to development & maintenance of customer information tools
- Comprehensive modeling and analysis of expected and actual campaign and portfolio performance

## 2. Testing

- Extensive market research undertaken to understand customer attitudes/behaviors
- Extensive active research, typically below the line offers

**Case Study:** A recent product launch supports the notion that price is not the only lever

Take up rate %



**Outcome:** Higher rate product consistently had higher take up rate. All other features comparable

# Case Study: In October 2003 successful interchange fee response based on extensive customer research & analytics...

## Understanding our Customers

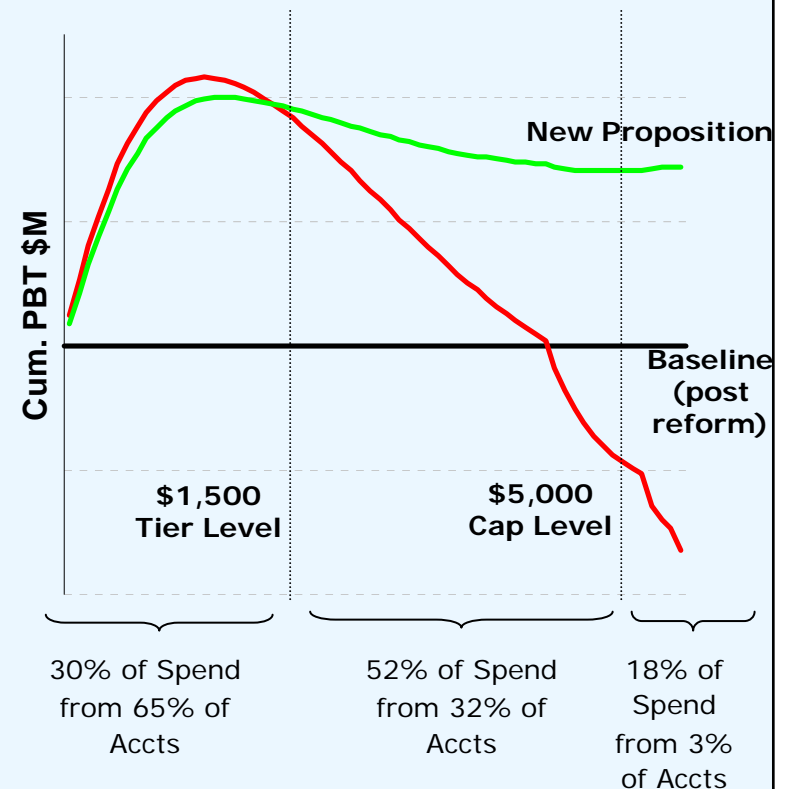
- **Customer Research:** 1,200 existing customers surveyed to understand the perceived impact of different product changes

## Key Findings:

- Increased **Annual Fees** found to be the greatest attrition catalyst
- **Points:** Flat reduction in earn rate would result in a significant negative impact on perceived value and affect our most valuable customers

## We structured our response based on these findings

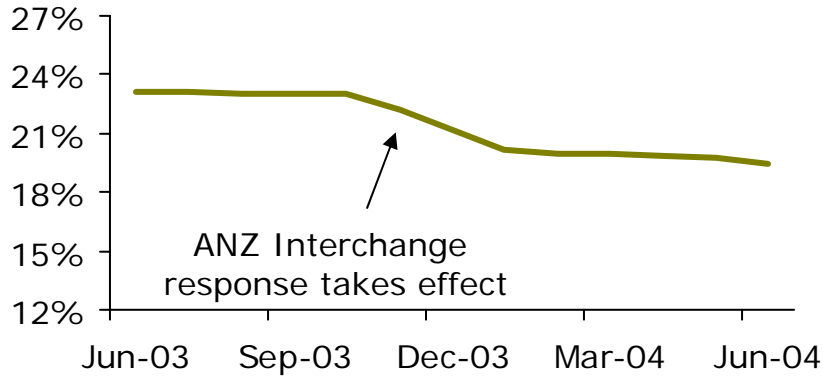
### ANZ FF Visa Card Impact of Interchange Response



# ...driving a favourable portfolio and profit outcome

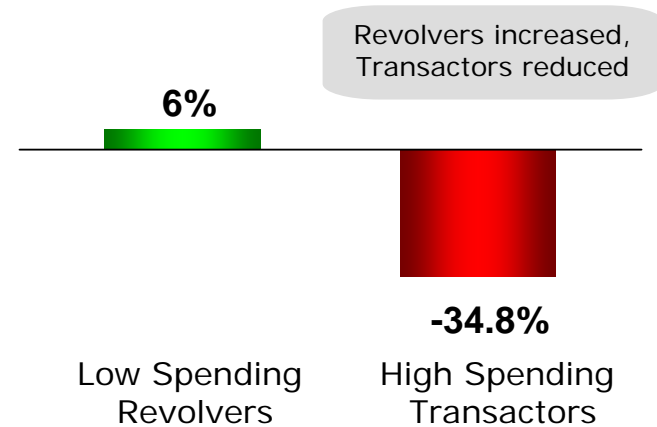
## ANZ share of spend was adversely impacted by the reforms...

(Share of Mkt Spend 3 month rolling average)



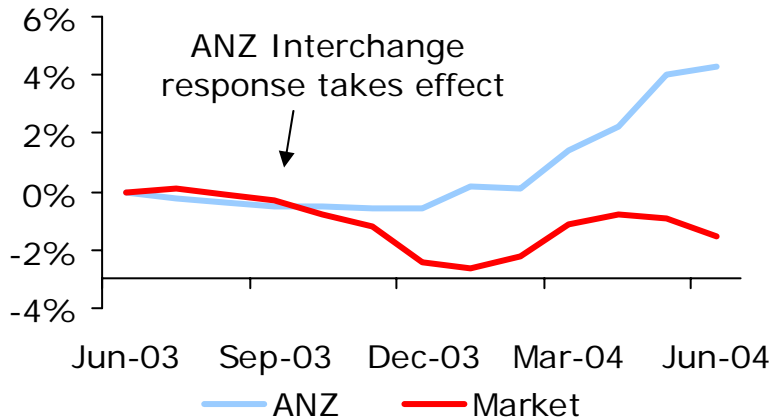
## ...but we improved the attractiveness of our customer base...

(Share of Mkt Spend 3 month rolling average)

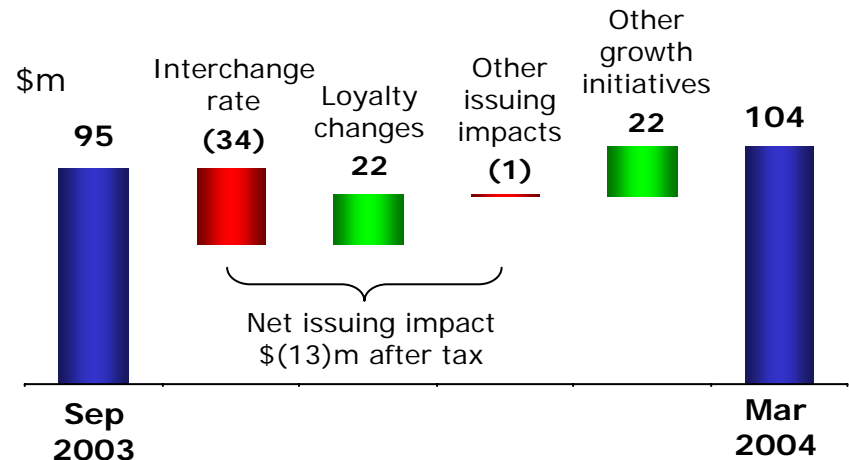


## ...resulting in increased Outstandings earning interest

(3 month rolling average)



## Profit impact contained to \$13m



# Our new brand position seeks to differentiate on key customer "moments of truth"

## New Brand Positioning

### ANZ Credit Cards

*Whatever It Takes...*



#### Low Rate

Help you take control of card debt



#### Premium

Enhance your lifestyle



#### Rewards

Real value from every day spending



#### Visa Debit

24/7 access to your own money



#### Low Fee

Let you enjoy the now



#### Platinum

The exclusivity you deserve



#### Frequent Flyer

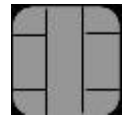
Reward you with more life experiences



#### Prepaid

Reward friends and family

#### Security



+

#### Service



*ANZ credit cards ... whatever it takes to deliver more convenient, simple and problem free card services*

# Innovation is core to our Customer centric strategy



First chip card in Australasia



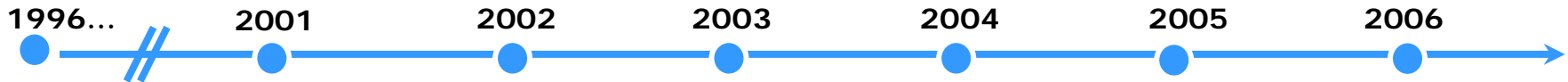
First major bank low rate card



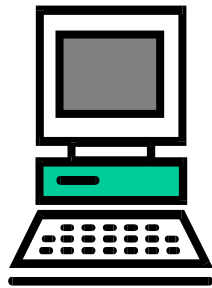
First bank with 24x7 call centre + customer charter



First major bank Visa Debit



First frequent flyer rewards card



First 60 second online application and online CLIs, BTs, Verified by Visa



First bank to partner with 3 party scheme



First bank to launch 0% BTs



First bank to launch Design My Card

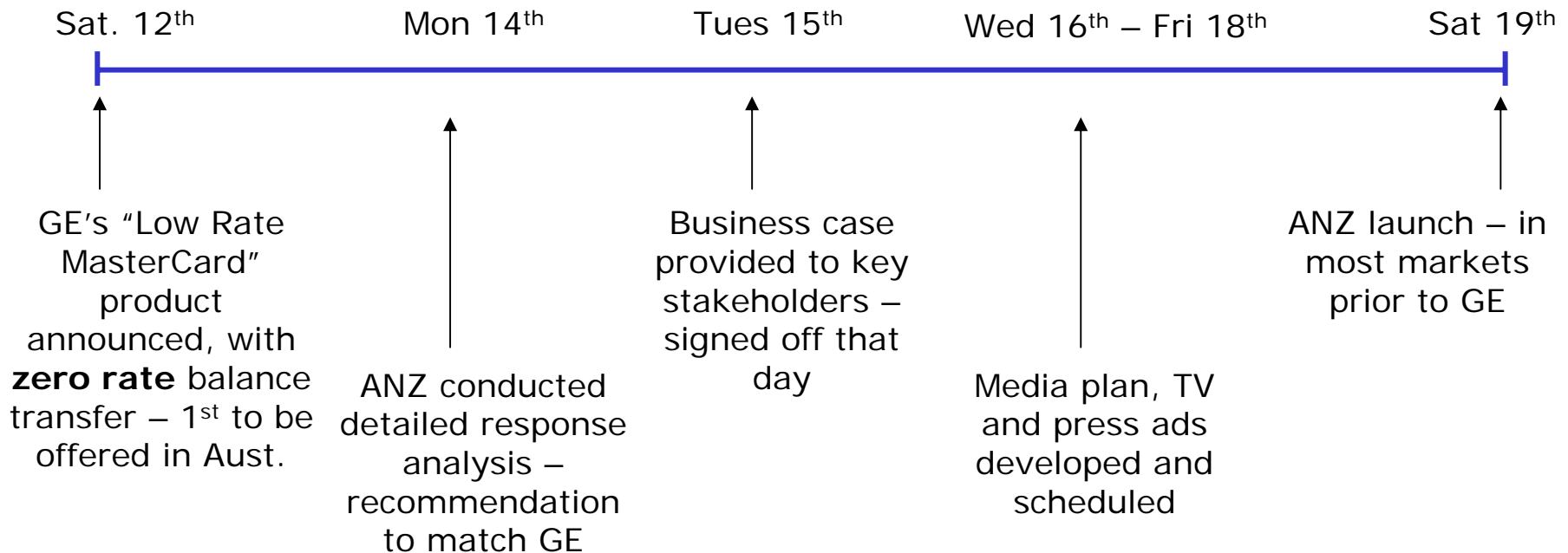


First bank to launch gift cards

# Case Study: Deep understanding of customers, opportunities, and threats enhances our strategic agility

## Respond rapidly to competitive opportunities and threats

### February 2005 – response to competitor’s 0% Balance Transfer threat



### How we responded so promptly

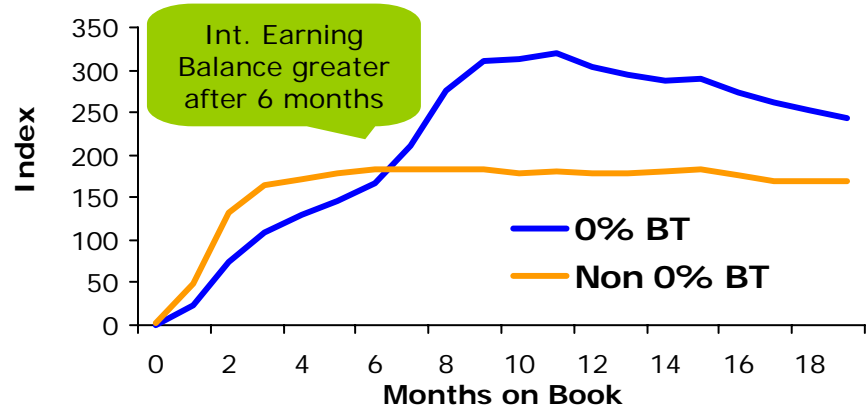
- Anticipated the competitive threat and had a response ready to roll out, having completed test campaigns and detailed customer research

# Balance Transfer ("BT") has had a positive impact on our portfolio

- Low rate portfolio is value accretive
- Payment hierarchy central to Balance Transfer ("BT") business case
- 12 months of active testing lead to very targeted marketing and credit BT offers
- 1<sup>st</sup> mover advantage exists in BT market as rate of growth in non profitable "Quarantiners" (customers who only shift balances and don't transact) continues to increase
- BT is not a permanently embedded feature in card products - it is used as a strategic marketing offering

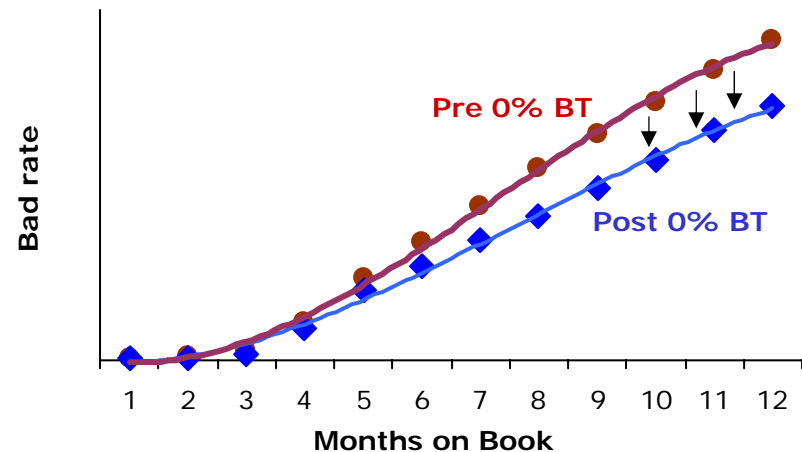
## 0% BT offers enable ANZ to capture larger interest-earning balances

(Interest Earning Balance per Account)



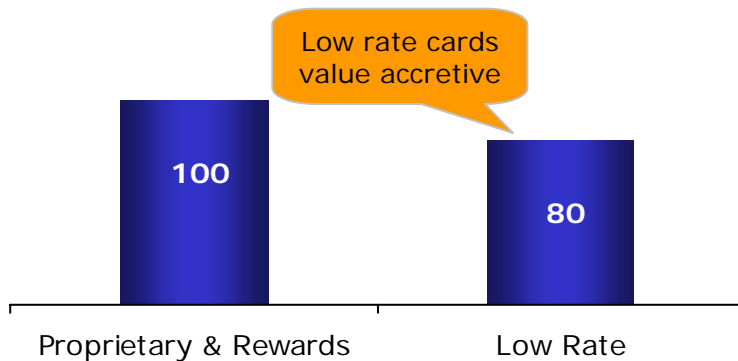
## Low rate customer credit quality improved

(Bad customers\* as % of total accounts)



## Low Rate cards are profitable

(Indexed annual EVA<sup>^</sup>)



# A good track record of successful Alliance relationships in Australia and overseas



## ANZ and Aussie

- Partnership model focussed on alignment of interests



## Co-brand Partnerships (Qantas, Telstra)

- ANZ, Qantas & Telstra jointly launched the Qantas Telstra Visa Card
- Back-to-back winner of the prestigious International Freddy Award for the best frequent flyer card in the world
- ANZ Frequent Flyer range of cards.



## Co-brand Partnerships (Diners Club International)

- Diners Club International partnership to address interchange reform



## Asia Cards joint ventures in Indonesia, Philippines & Vietnam

- 85% shareholding in ANZ Panin Bank
- Metrobank Card Corporation joint venture with Metrobank
- Memorandum of Understanding to develop a credit card JV with Sacombank, the largest commercial joint-stock bank in Vietnam



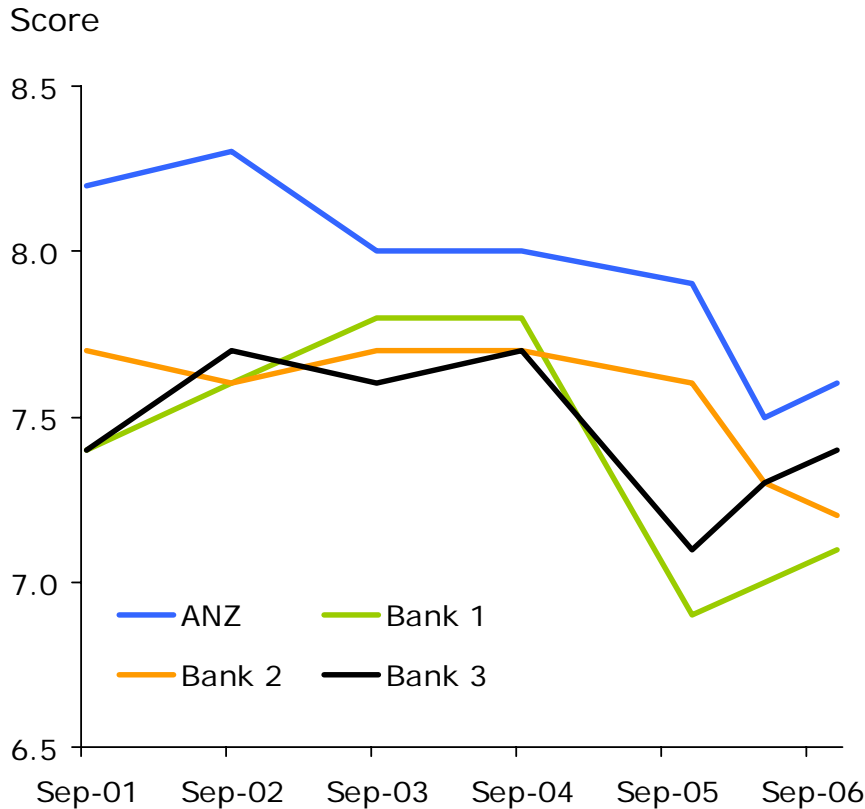
## Corporate - ANZ and ING (ING Australia)

- joint venture offering a range of benefits for investors

# Continually delivering above peers on product and service excellence

**ANZ Consumer Cards remains at top of other majors in customer satisfaction**

**Award winning customer service capabilities**



**ANZ. Best Call Centre in Australia, 3 years in a row. And we're here to stay.**

Thanks to all the dedicated staff at our local call centres, ANZ has once again been awarded the best call centre in Australia. And Australia is where we plan to stay. ANZ call centres are conveniently open 24 hours a day, seven days a week. To switch call 13 13 14 anytime. That's ANZ now.



Personal Customer Service Professionals Logo. Business Customer Satisfaction 2001, 2002 and 2006. Australia's Best Banking Group 2004-2006. ANZ 13 13 14. ANZ 13 13 14. ANZ 13 13 14.

## ANZ is committed to financial literacy

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- We continue to invest in community programs and work with community partners aimed at improving the financial literacy of Australians



- Financial literacy and matched savings program: ANZ matches \$1 for every \$1 saved by eligible participants (\$1000 cap)
- encourages those on low incomes to build financial skills and establish a savings 'habit'



- Independent adult financial education program delivered by financial counsellors and community educators



- A financial inclusion program for Indigenous communities
- Aims to build financial literacy, budgeting, bill paying and savings skills
- Delivered by trained local Indigenous people


### Progress Loans

- Tailored to the needs of people on low incomes currently using 'payday lenders' and other fringe credit providers

# Consumer Finance is at the forefront of Responsible Lending

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*Promoting responsible lending practices to ANZ customers with poor recent credit performance or on income support*



## What are we doing?

- ✓ ANZ Customer Charter includes new 'responsible lending promises' to prevent credit limit increase (CLI)
- ✓ Enhanced filtering process excludes CLI offers to recent "poor" credit performers
- ✓ A second behavioural scoring filter eliminates CLI offers to customers with "unreliable" credit history over a longer period
- ✓ Behavioural scoring tool has effectively reduced the pool of customers to whom ANZ would have otherwise issued a CLI offer by 11%
- ✓ ANZ's performance is independently audited and reported each year - the only Australian bank to commit to formal, public, auditable responsible lending promises
- ✓ Program will extend to all areas of ANZ Personal division

# A strong emphasis on staff, lead by a highly engaged management team

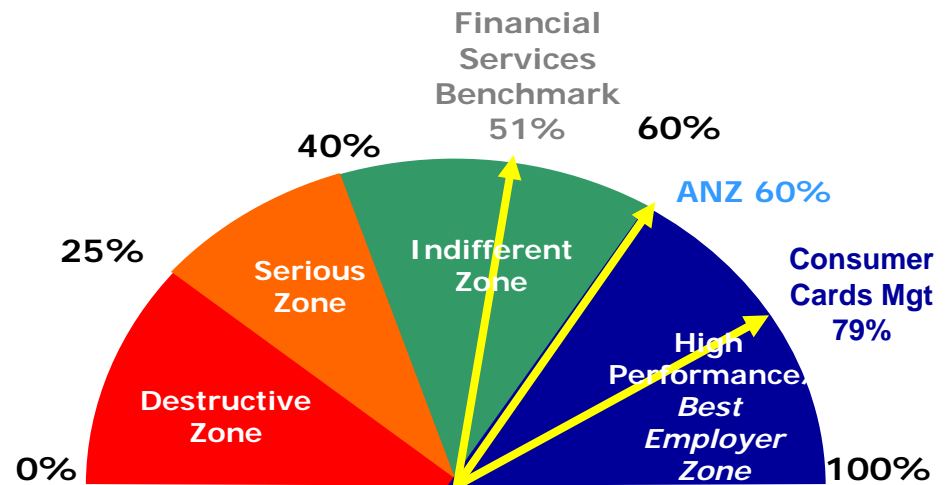
ANZ Consumer Finance employee value proposition

Most engaged workforce of major Australian companies



|   |
|---|
| <p><b>Be the Best</b><br/>Market Leader, Deliver Results, Dynamic, Alive, Informed, Achieve</p> |
| <p><b>Be Inspired</b><br/>Career, Leadership, Culture, Environment, Balance</p>                 |
| <p><b>Be Responsible</b><br/>Customer, Community, Diversity</p>                                 |

2006 ANZ Staff engagement results



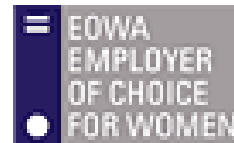
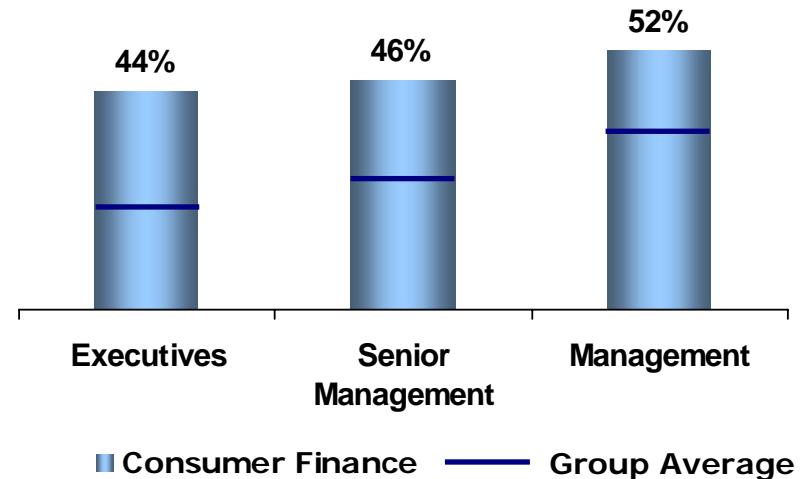
# People and cultural values upheld through flexibility and diversity

## Flexible work arrangements supported in Consumer Finance

- 24% of staff are on part time contracts
- 23% have utilised carers leave
- 19% of staff have utilised leave without pay (<6mths)
- Other flexible leave utilised includes;
  - Parental Leave
  - Career break
  - Study leave
  - Flexible work hours

## Women are well represented in management

(% of women in management roles in consumer Finance)



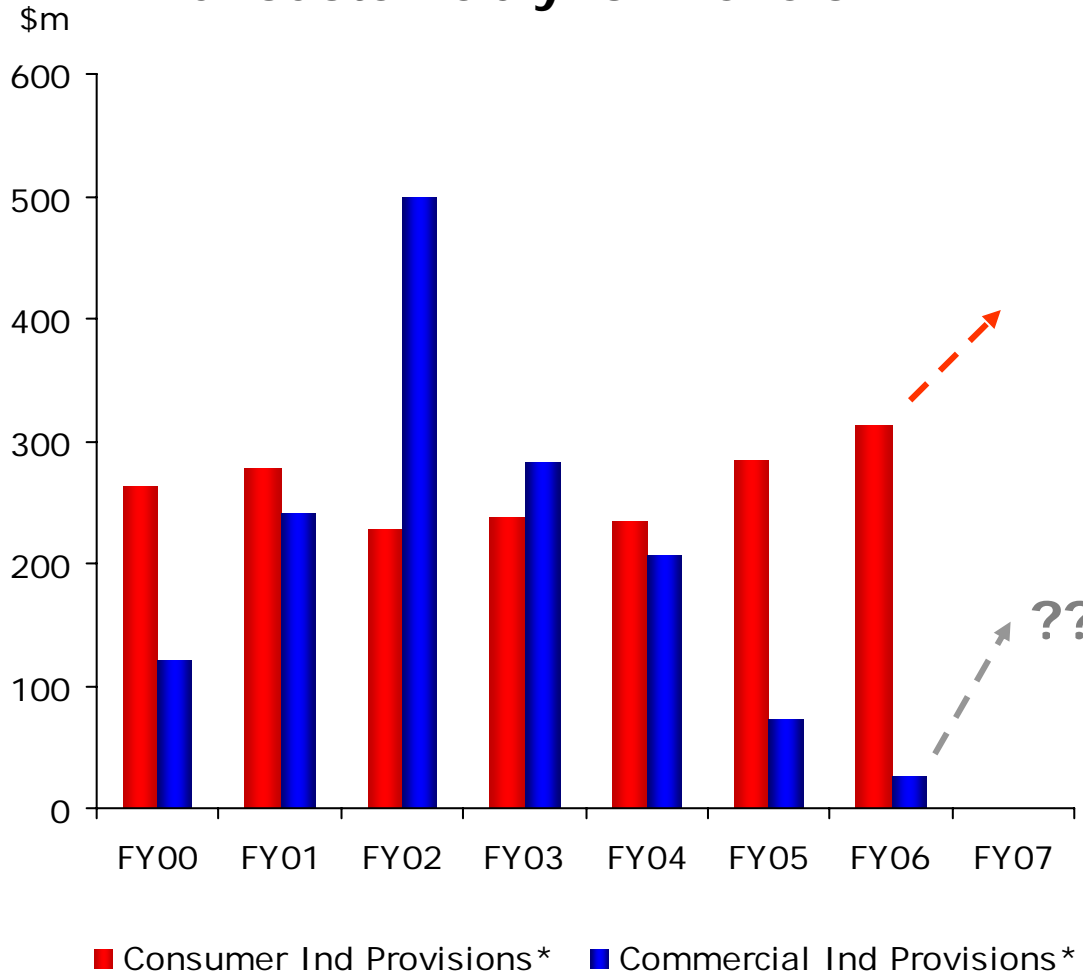
- ANZ recognised as an Employer of Choice for Women
- 5th consecutive citation and one of only 131 organisations

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# Credit Quality

# We said back in October it was hard to see credit quality getting better!

## Individual Provisions at unsustainably low levels



## Consumer: Key Drivers

- Continued growth in the portfolio
- Change in portfolio mix from growth in unsecured products - low rate cards
- Impact on servicing capacity – interest rates, oil price
- Rising bankruptcies
- Slight reduction in recovery rates - motor vehicles and unsecured debt

# In theory credit card losses result from four key drivers aside from outstandings growth, the economic cycle & collections activity

1

1Cut-off scores/credit policy are set to maximise risk adjusted revenue (RAR)

## Illustrative

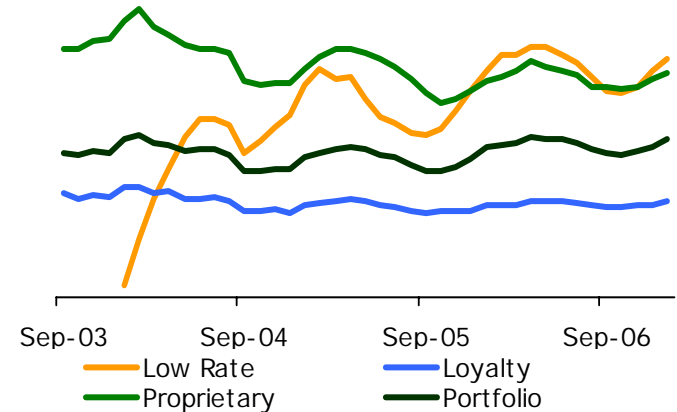
| (A)               | (B)                          | (C)                       | (D) = C-B             |
|-------------------|------------------------------|---------------------------|-----------------------|
| Population Decile | Total Credit Provisions Rate | Revenue (Interest + Fees) | Risk Adjusted Revenue |
| 10%               | 5%                           | 9%                        | 4%                    |
| 10%               | 4%                           | 7%                        | 3%                    |
| 10%               | 5%                           | 8%                        | 3%                    |
| 10%               | 6%                           | 9%                        | 3%                    |
| 10%               | 8%                           | 11%                       | 3%                    |
| 10%               | 11%                          | 11%                       | 0%                    |
| 10%               | 15%                          | 12%                       | (3%)                  |
| 10%               | 45%                          | 24%                       | (21%)                 |
| --                | --                           | --                        | --                    |

↑ Population Decile  
↑ Total Credit Provisions Rate  
↑ Revenue (Interest + Fees)  
↑ Risk Adjusted Revenue

↖ Cut-off

3

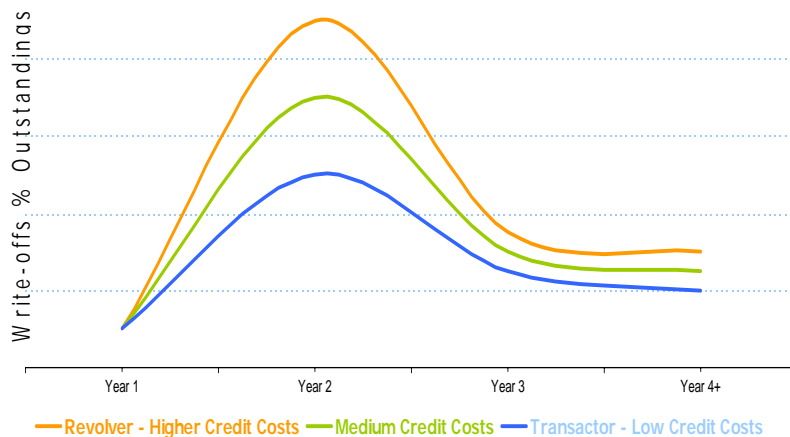
Different products attract customers of different credit quality (60+days arrears)



2

1Age of accounts: Credit costs generally peak around 18 to 24 months after an account is opened

## Illustrative



Outstandings (\$m)

Annual growth

Year 1 Loss 1%

Year 2 Loss 3%

Year 3+ Loss 2%

**Net Losses**

**Net Losses % O/S**

## Illustrative

Yr 1 Yr 2 Yr 3+

100 200 250

100 100 50

1 1 0.5

- 3 3

- - 2

**1 4 5.5**

**1.0% 2.0% 2.2%\***

4

Source and channel:

Existing customers have lower losses than new customers

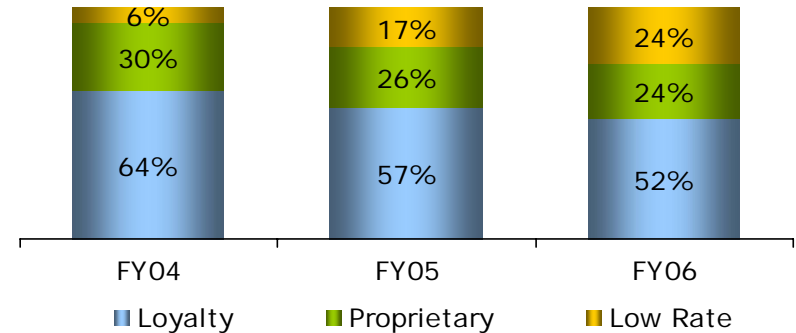
Branch-originated accounts have lower losses than phone and internet-originated accounts

# ANZ losses largely driven by product mix shift and portfolio 'seasoning'...

- Increased credit card loss growth due to:
  - Strategic shift to higher-revolving, low rate products
  - Portfolio seasoning – losses peak at ~ 18 to 24 months
- Loss rates are tracking in line with business case expectations

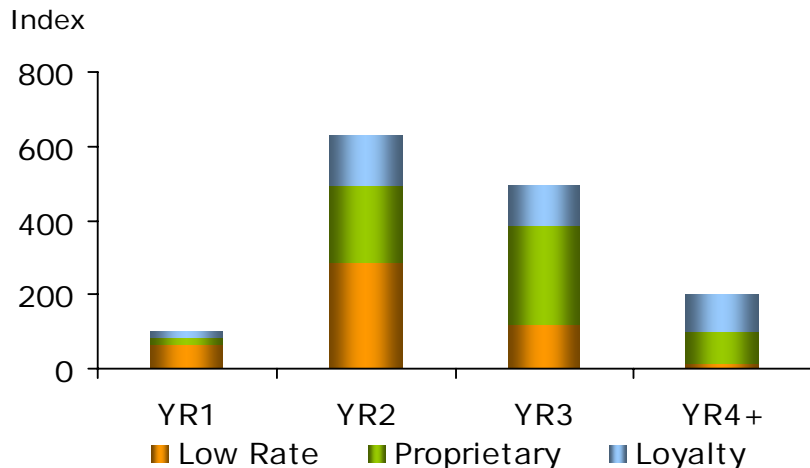
## Highest rate of growth in Low Rate cards

(% growth in Outstandings)



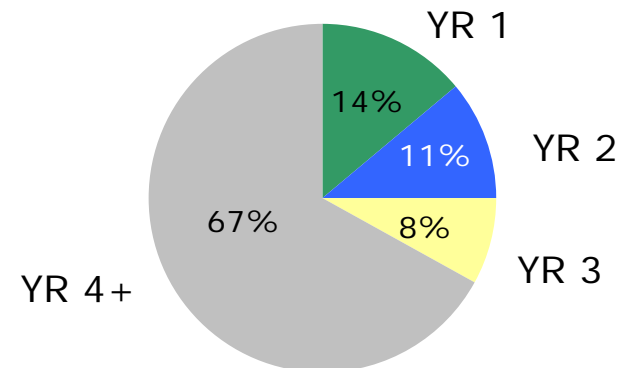
## Loss rates will increase as low rate balances 'season'

(Loss Rates by Vintage by Product Index YR1 = 100)



## Two thirds of portfolio seasoned beyond high risk vintages

(% Ave. Total O/S Balances)\*



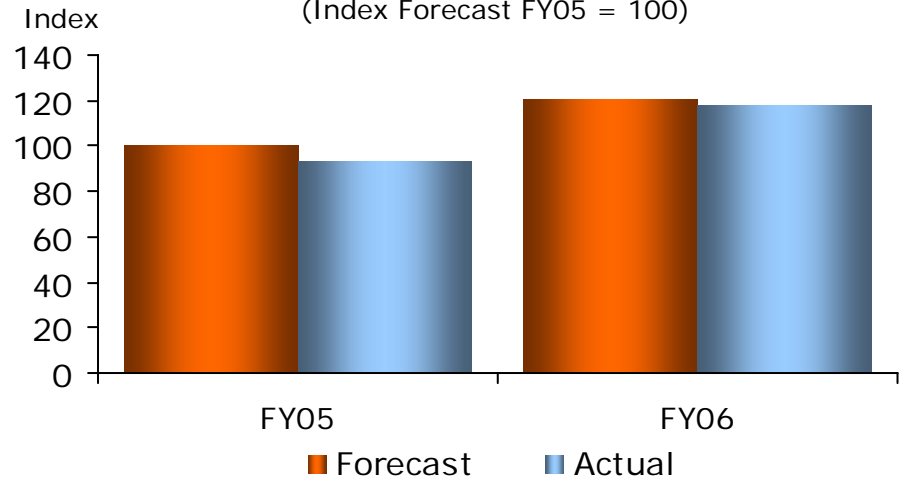
# ...which are highly predictable

- Consumer Finance Individual Provisions are highly predictable
- Losses are closely monitored against expectations – both loss rates and timing of loss
- Credit policy & scorecards are regularly reviewed to manage lending decisions and loss expectations
- Collections capabilities key contributor to managing loss rates
- Loss rates have historically remained at acceptable levels

## Consumer Cards losses highly predictable

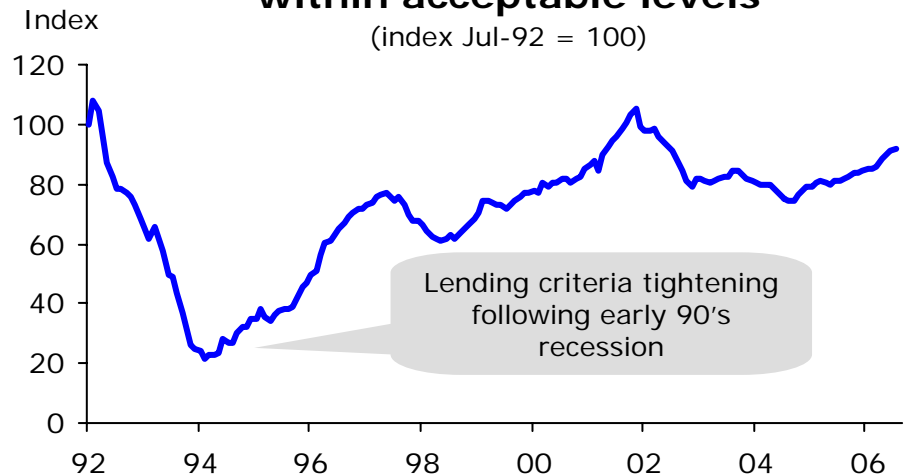
### Actual v Forecast Individual Provisions

(Index Forecast FY05 = 100)



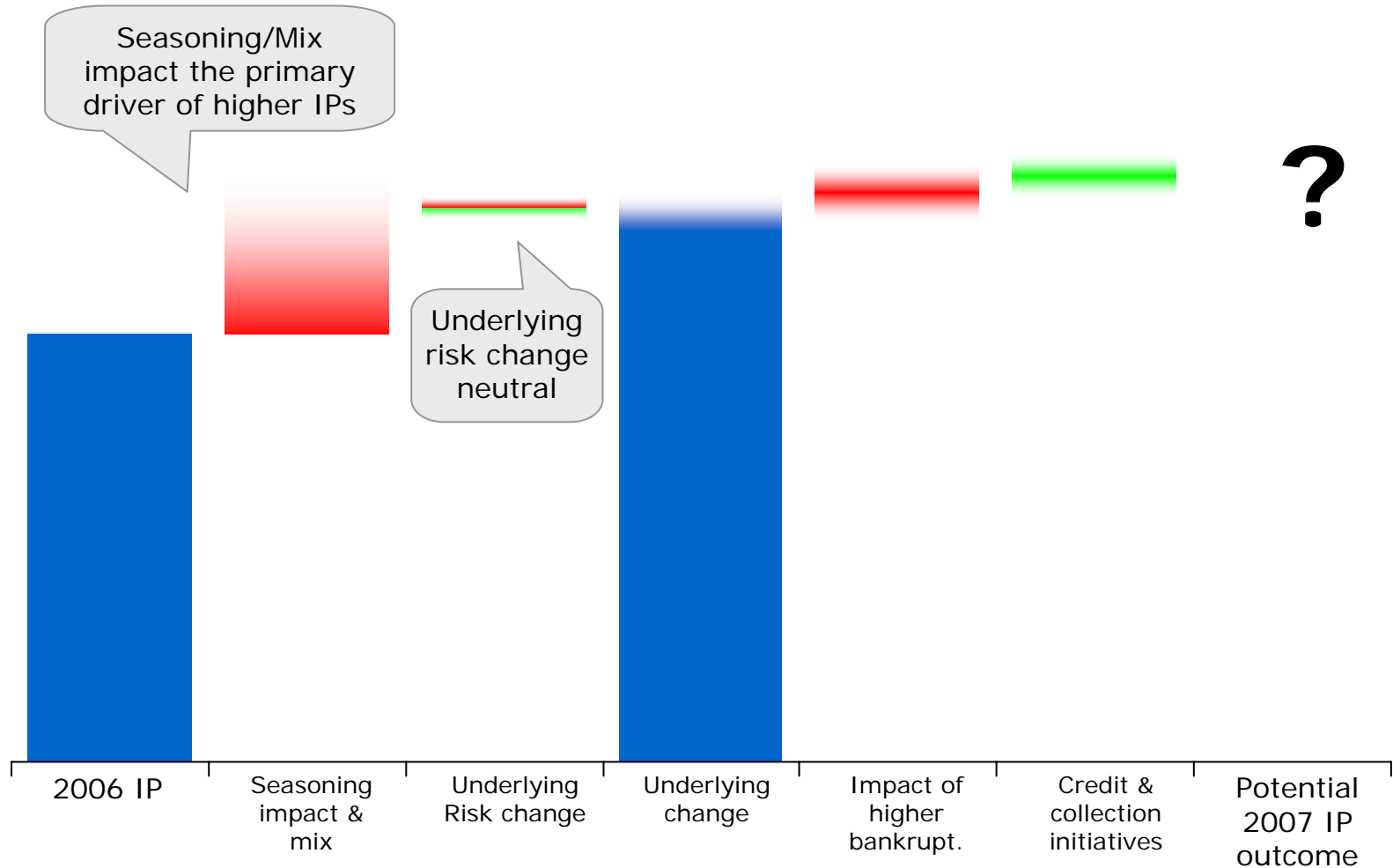
## Historic cards loss rates managed within acceptable levels

(index Jul-92 = 100)



# Drivers of higher IPs in 2007 mainly structural in nature, underlying credit quality still solid

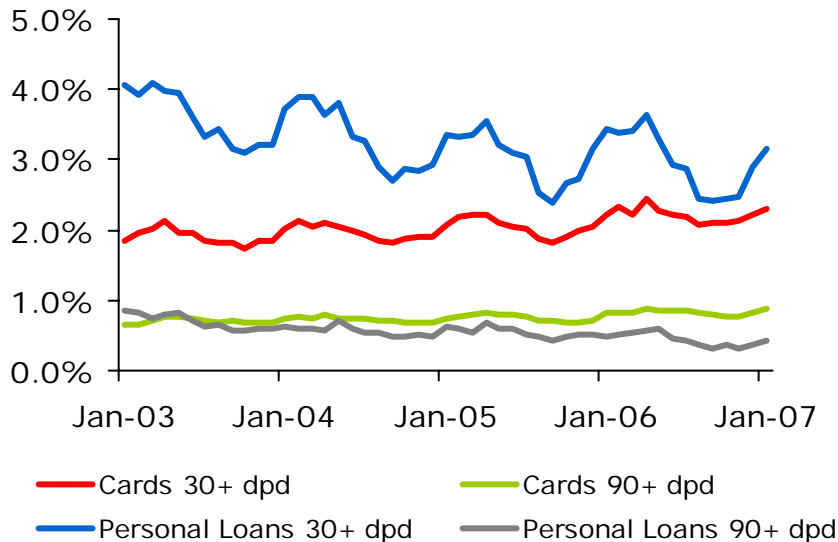
## Potential drivers of Individual Provisions for Australian Credit Cards



# No material adverse trends in underlying arrears rates

## Short term arrears impacted by seasonality; Long term rates remain stable

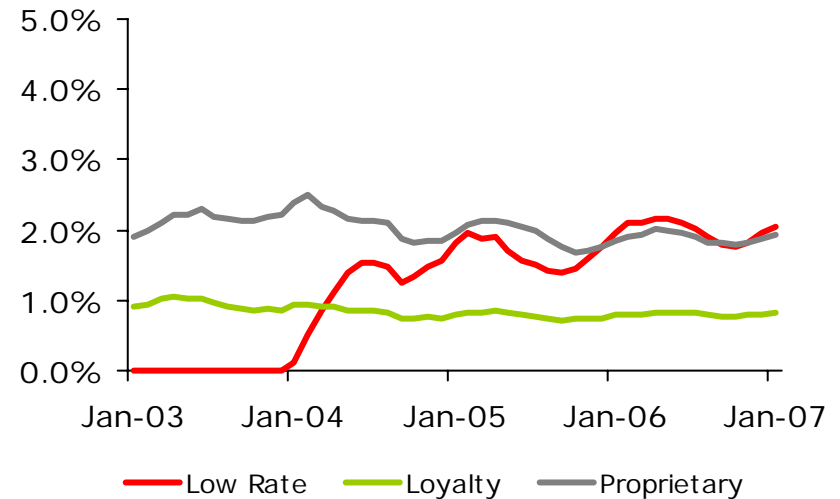
(% arrears to outstandings)



- Short term arrears rates (30+ days past due) impacted by:
  - Seasonality
  - Portfolio mix
- Long term arrears rates (90+ days past due) remain stable, with good improvement in Personal Loans
- Anticipate an increase in long term rates as a result of product mix shift to Low Rate cards

## Arrears by cards product remain within expectations

(>60 day arrears to outstandings)



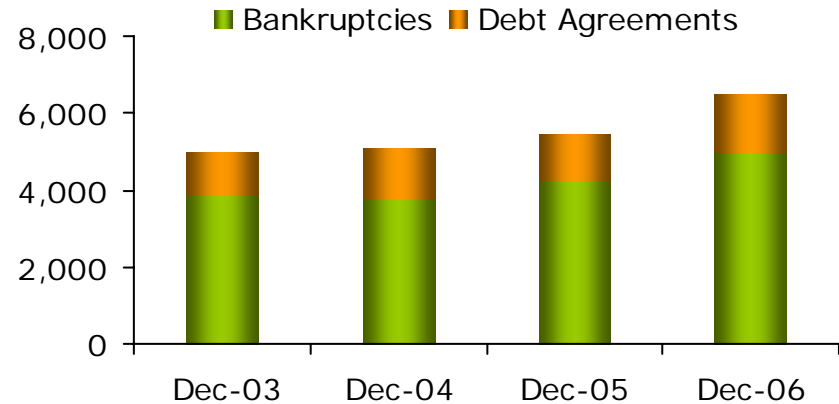
- No material shift in product arrears
- Low Rate arrears and loss rates tracking in line with expectations

# Bankruptcies continue to increase

- Bankruptcies hard to detect and predict
- ANZ bankruptcies increasing in line with market trends
- Whilst number of bankruptcies are increasing, value not a material driver of increased provision charge

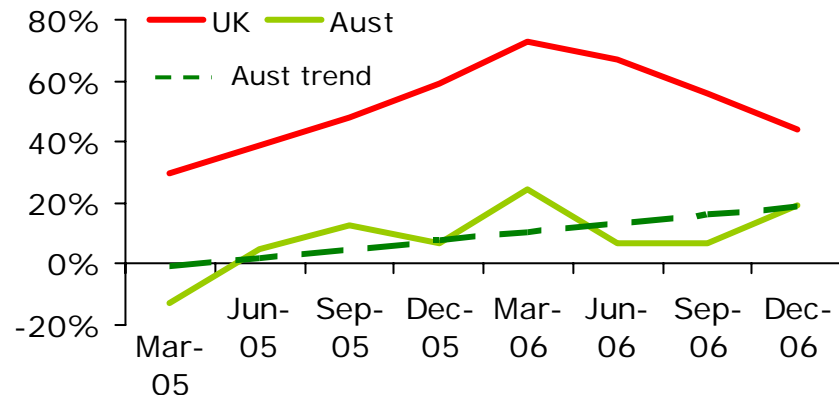
## Bankruptcies/debt agreements continuing to rise...\*

(Aust. Non Business Bankruptcies and Debt Agreements)



## ...rate of growth remains well below UK\*

(Personal bankruptcies and debt agreements, quarterly data yoy growth)



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The material in this presentation is general background information about the Bank's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

For further information visit

**[www.anz.com](http://www.anz.com)**

or contact

Stephen Higgins  
Head of Investor Relations

ph: (613) 9273 4185 fax: (613) 9273 4091 e-mail: [higgins@anz.com](mailto:higgins@anz.com)