Shaping a world where people and communities thrive

Accelerated branch closures

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For CEO discussion on 26 April 2017

FOR DECISION

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Action Requested

Approval is sought to accelerate closures, resulting in an Australian Branch Network of [redacted] branches by 30 September 2019

- Closures would accelerate from ~50 in 2017 to [redacted] in each of 2018 and 2019
- Reduction from 677 branches (30Sep'17F) is estimated to cost [redacted], with [redacted] incremental PBT by 2020
- Up to 8 additional FTE could be necessary across Property, Technology and Australia Division and ~$1m to improve data analytics capabilities
- Proposed closures would then proceed subject only to:
  - continued close monitoring of the Australian political landscape and necessary mitigants for 'hot spots'
  - closer monitoring to ensure customer attrition remains benign (2016 was within 5% of normal levels)
  - continued progress in enabling customers to do most things digitally, as per current plans
- This proposal extends earlier analysis which indicated relatively low value from potential sale options (refer Apx 6 below and separate March 2017 paper)
- Closure of less productive branches is consistent with ANZ's purpose in enabling concentration of resources into significantly better physical and digital interactions, enabling more customers to thrive

Next Steps

Refine and finalise the list of potential closures, engage additional FTE/resources, actively monitor the need for more proactive retention activity, including reporting and more sophisticated data analytics, and assist/support the ongoing development of Digital services capability wherever possible

Around 70% of the proposed Confidential [redacted] branch closures are lower contributors in regional and remote locations, as well as some metro sites where the speed of digital adoption by customers will likely be high

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[redacted]

A [redacted] branch network by 2019 is estimated to deliver [redacted] PBT in FY'20, reducing to [redacted] in FY'22 assuming a 1% increase in attrition as closures accelerate

Estimated financial impact of a [redacted] branch network by FY'19		FY'18	FY'19	FY'20	FY'21	FY'22
network size	#	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
net reduction	#	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
one-off closure costs	$m	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
closure savings[1]	$m	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
new branch run costs[2]	$m	-3	[redacted]	[redacted]	[redacted]	[redacted]
revenue attrition	%	+1%	[redacted]	[redacted]	[redacted]	[redacted]
in addition to baseline	$m	-5	[redacted]	[redacted]	[redacted]	[redacted]
PBT benefit[3]	**$m**	**14**	[redacted]	[redacted]	[redacted]	[redacted]

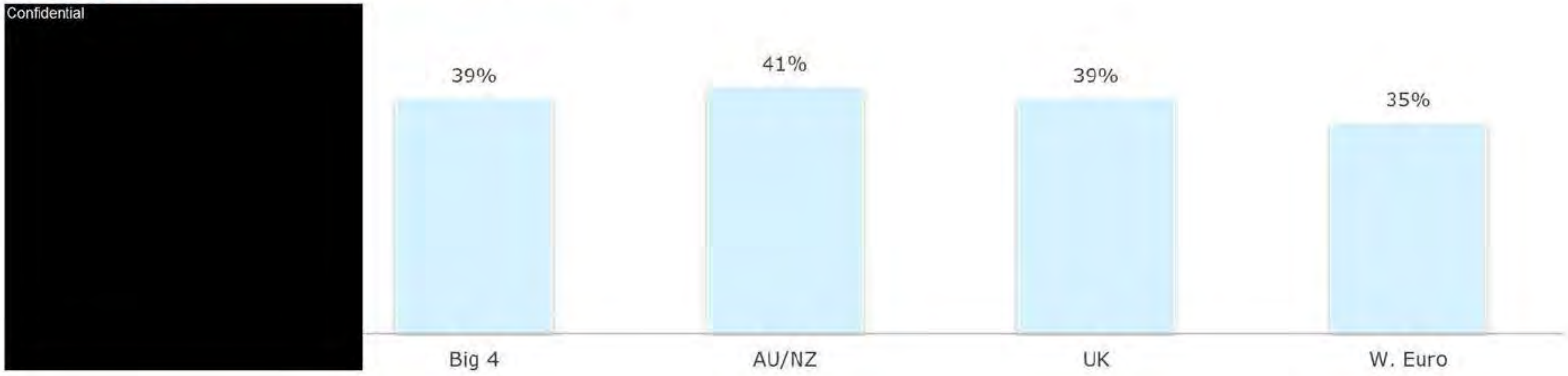
- Achieving a [redacted] branch network by Sep'19, with [redacted] additional branch closures over the next 2 years, is estimated to cost [redacted] Incremental PBT by 2020 (relative to 2017) would be [redacted], reflecting cost savings from closed branches net of costs to deliver 3 new branches each year and incremental revenue attrition (assumed to be 1% higher)
- Improved digital self-service sales and service options for customers is critical to achieving attrition levels within acceptable tolerances. Related costs are excluded from the estimates below
- An improved approach to mitigating against higher attrition is vital to monitor impacts of the 50 FY'17 closures currently underway and the proposed acceleration
- Up to $1m investment into more advanced data capabilities would ensure optimal branch selection and higher transparency of impacts. This investment would include:
  - accelerated geospatial analytics to inform customers' propensity to adopt alternative channels, including digital; and
  - enhanced regular reporting of customer engagement and attrition to fully inform on the impact of current and proposed closures

1. closure savings achieved through lower personnel and property direct expenses 2. new branch run costs assumes three new destinational branches are opened each year
3. PBT excludes one-off closure costs and excludes any additional investment in our digital proposition

The risk of customer attrition increases as more branches are closed. This is a higher risk for ANZ because customers are more active in branches and our digital capability lags major competitors

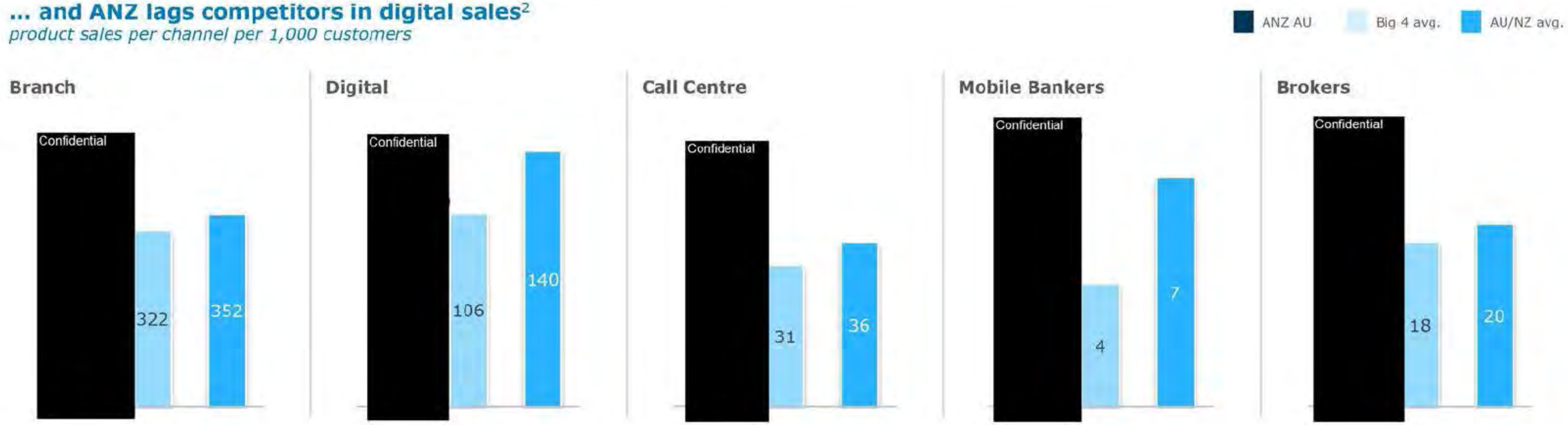
ANZ has customers that are more active in branches[1]

% of customers using branches



... and ANZ lags competitors in digital sales[2]

product sales per channel per 1,000 customers

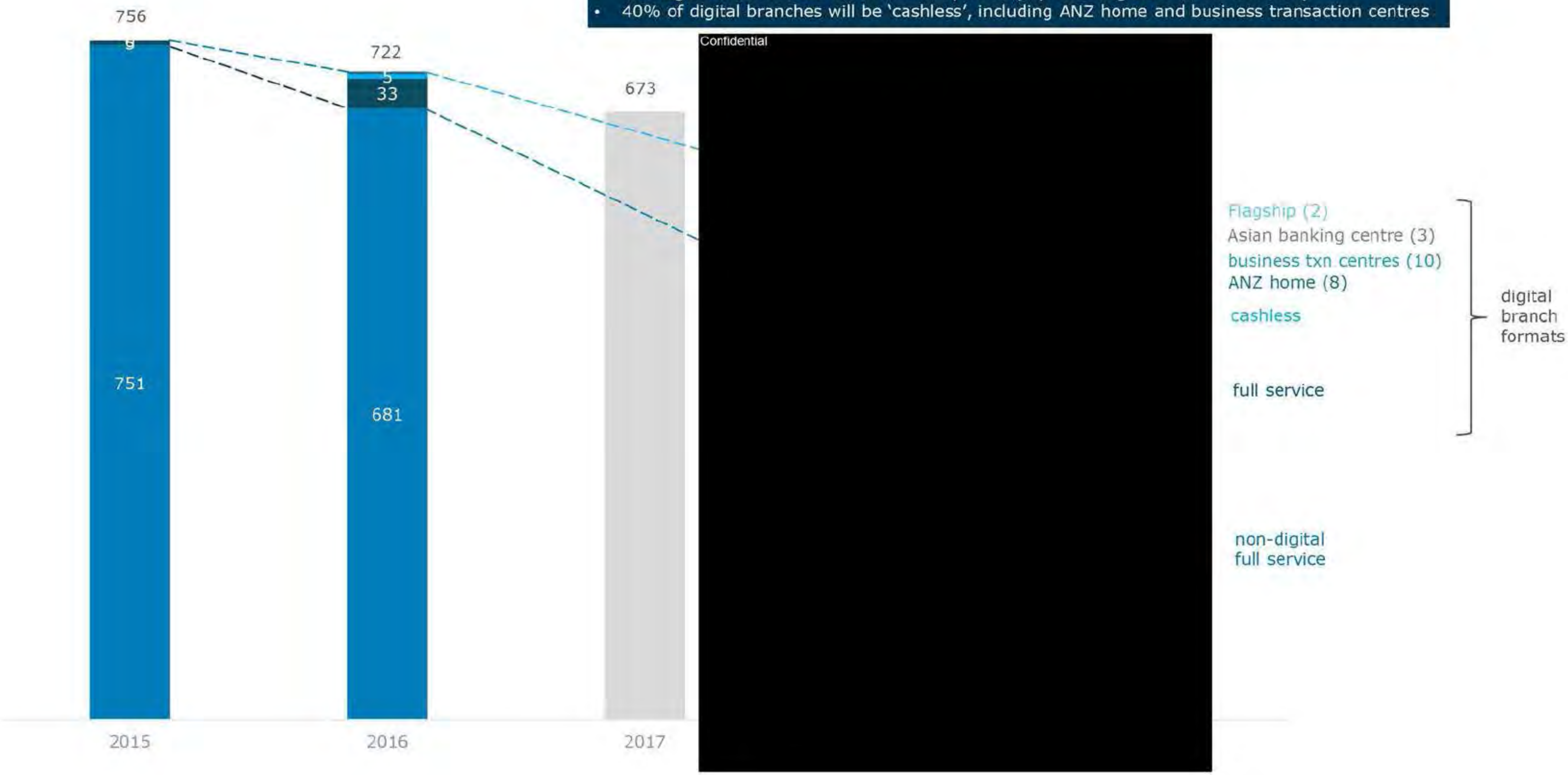


1. Avg. percentage of customers active in branch per Finalta Sales Effectiveness Benchmarking Study 2016, V1.2, Jan'17
2. Core product sales by channel per 1,000 customers (excl. credit card only customers) - source as per 1.

Appendices

APPENDIX 1: *Accelerated branch closures will deliver a network with* Confidential [redacted] *branches by Sept'19, including a broader range of formats to better align with customers' needs*

- Introduction of conversions will increase annual digital refurbishments from ~37 to ~52
- 190 digital branches will be delivered by FY19 (representing 38% of the network)
- 40% of digital branches will be 'cashless', including ANZ home and business transaction centres



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APPENDIX 2: *we're rapidly progressing towards a more comprehensive solution for customers after branch closures*

Banking services offered

bank@post

- Offered via ~3,600 Australia Post outlets
- Used by >70 other financial Australian institutions, including the other majors
- Card-based transactions available are:
  - balance enquiry
  - cash deposit (up to $5,000/day cash, up to $1m total)
  - cheque Deposits (99 cheques per deposit)
  - cash withdrawals ($1,000/day)
  - bar-coded deposits (CACHE only)

ATMs

- Only traditional (not Smart) ATMs are currently be deployed offsite
- Basic cash withdrawals
- Basic account services

ATM	+ Smart ATM	+ Assisted Service – Consumer Cash
• card withdrawal • balance enquiry • account transfer • pin change	• card deposit (notes & cheques) • no card deposit (notes & cheques)	• card deposit - coin, CACHE • no card deposit -coin, CACHE • card withdraw denomination choice • pre-staged 'goMoney' no card withdrawal

Limitation

bank@post

- Whilst transaction volume is higher than expected (24k v^s 14k/wk), hence annualised cost $3.6m vs. $1.5m
- Work is underway to solve for bar-coded deposits for CAP customers and deposit-only card for multi-signatory accounts
- Costs paid to Australia Post are not fully recouped from customers

ATMs

- Offsite ATMs cannot be manually cleared daily on a cost effective basis
- Smart ATMs capture but do not transmit details on cheques deposited for clearance
- To avoid different service levels for different ATMs, Smart ATMs are not being deployed offsite

Solution being developed

bank@post

- Work is underway to solve for bar-coded deposits for CAP customers and deposit-only card for multi-signatory accounts
- Prioritising funding and resourcing for this work is challenging
- Geospatial is mapping high use of bank@post where ANZ branches should be servicing[1]

ATMs

- FY'17 investment has been secured to electronically clear cheques deposited to Smart ATMs
- This will enable aligned cheque clearance times and remote deployment of Smart ATMs

1. *40% of transactions are in urban locations. 40,600 individuals with 65k transactions, 6,800 small biz/25k transactions, 359 regional business bank/1,258 transactions*

APPENDIX 3: *notes on our current approach to branch closures and network optimisation*

- 34 branches were closed in FY16 and we are on track for a further 50 closures in FY17. Productivity benefits from these closures have been incorporated into our Plan. This will reduce the network to 677 branches by September 2017.
- 5 new branches will open in NSW during FY17
- 66 branches already have the new digital branch design. By the end of FY17 there will be 90
- Our new digital branch design heralded several new formats, including 'ANZ Home', flagships and cashless branches
- We now have 2 'ANZ Home' branches, both located in Sydney, with a third planned for Bankstown in Sydney and Chadstone in Melbourne within the next year
- Our first Asian Banking Centre, bringing our Asian specialists together in one location, opens at Haymarket in July 2017
- Planning is underway for the opening of our second flagship branch in Melbourne in 1Q'18

[redacted]

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[redacted]

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[redacted]

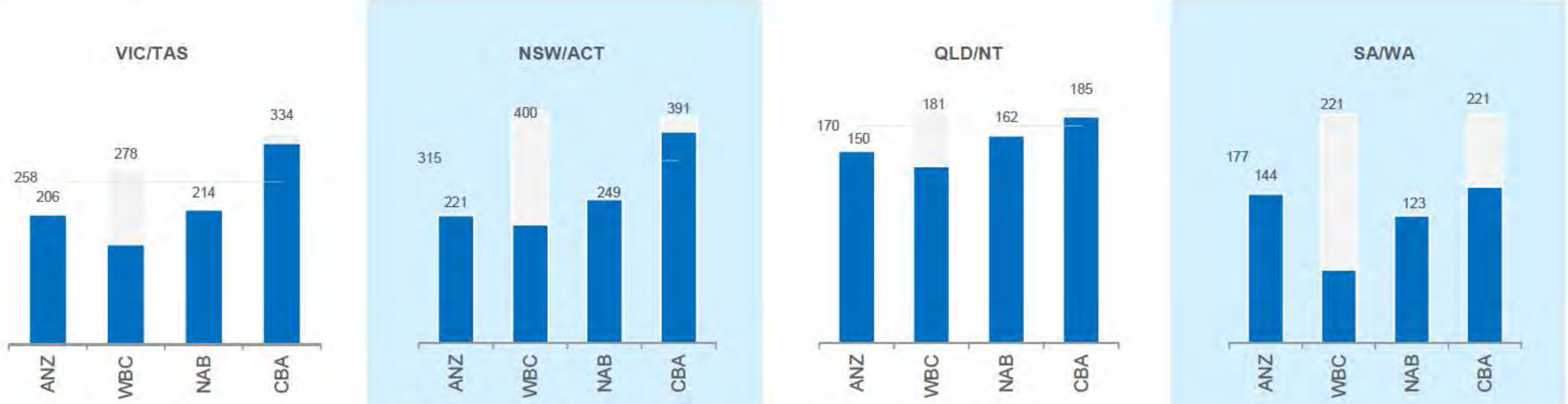
APPENDIX 5: *COMPETITORS – BRANCH COMPARISON (PER APRA STATISTICS AS AT 30 JUNE, 2016)*

competitor – main brand
competitor – sub-brand
average

Branch Network		2005	2010	2015	2016
ANZ		**734**	**816**	**752**	**721[4]**
Westpac	WBC	814	846	840	**581[2]**
	STG[2]	340	398	352	388[2]
	BoM[2,3]	-	-	93	119
		1,154	**1,244**	**1,285**	**1,088**
nab		**786**	**741**	**749**	**748**
CommBank	CBA	1,006	1,009	1,015	1000
	BW[2]	89	138	132	131[2]
		1,095	**1,147**	**1,147**	**1,131**

- ANZ now has the smallest branch network amongst the majors (if all sub-brands are included). Although, Westpac now has fewer core (Westpac) branded branches than ANZ in all states
- Only Westpac is closing branches at a higher rate (by percentage and number). Their significantly higher branch closures and movements within brands indicates significant cross-brand integration
- NAB and CBA are closing fewer branches and at a significantly slower rate (some closures offset by opening in higher-traffic areas)
- NAB has a goal to have >50% digital branch format branches within 2 years, targeting ~25% reduction in size of branches through self-serve technology

Branches by state[2]



1. *Data sourced from ATMs FY'14 round table, a 10% variance is expected, Westpac excludes bank operated agencies*
2. *Split of branches by sub-brand are estimates from various bank websites and external media. St George brand includes Bank SA*
3. *Bank of Melbourne Brand launched 2011*
4. *ANZ's 721 number is amidst openings and closures through FY'16. The ABN will comprise 724 branches on completion of FY'16 and 679 on completion of FY'17*

Reference p.2

APPENDIX 6a: *Branch Sale Option - overview*

What would we be selling?

- The banking relationships of Retail and Commercial customers based in [redacted] regional, remote, and rural locations (contracts for lending, deposits, and transactional banking would be transferred to the purchasing bank)
- Post sale these customers will be serviced through the distribution channels (branches, call centre, relationship managers, digital) of the purchasing bank
- As part of the sale, ANZ branches based in these [redacted] regional, remote and rural locations will transfer from ANZ to the purchasing bank (who will take on the personnel and property rental obligations).

Why are cost savings that can be extracted under a sale scenario so low?

- Current assumption is that extractable cost savings are [redacted] p.a. being direct costs associated with the [redacted] branches
- Even if extractable cost savings were to double, a sale value of [redacted] would still only represent a PE multiple of 3-4x incremental NPAT
- Extractable cost savings are low given the amount of shared costs across Distribution, Products & Marketing, Operations, Technology, and Head Office (and revenue from customers migrated only represents ~3% of Australia Division revenue)
- Potential areas of shared cost savings include the Call Centre, Operations, Frontline Management, and Product Costs (however the trigger to target these costs is not necessarily a branch sale scenario).

Financial facts for what we would be selling

Lending	[redacted]
Deposits	
Revenue	
Credit Losses	
RAR p.a.	
Branch Personnel and Rental Costs	
Directly Attributable NPAT	
Australia Division Cost Base (FY17)	
Potential Cost Saving Categories	
Branch Network (including Property)	
Call Centre	
Product Costs (NLL's, Statements, Plastics)	
Operations	
Other Cost Categories	
CCB and Private Bank	
Marketing	
Investment Slate (including D&A)	
Technology	
Property (non Branch)	
Other (largely Middle/Head Office)	
Total	

Confidential

[redacted]

Confidential

[redacted]