



twimbit

Company Insights

Bendigo augmenting customer experience with simplification

2023
outlook

twimbit Purpose Score



*Changes vs twimbit Purpose Score 2020

Executive summary – Bendigo at a glance

Company Name : Bendigo and Adelaide Bank

Headquarter : Bendigo, Victoria, Australia

Employees : 7,936

Countries : 1

Branches : 466

Revenue : USD 1.36 Bn (AUD 2.04 Bn)

Common Equity Tier 1 Ratio : 9.68%

Y-o-Y Revenue Growth (%) : 9.27% ▼

Annual IT Spending : USD 57.96 Mn (AUD 87 Mn)

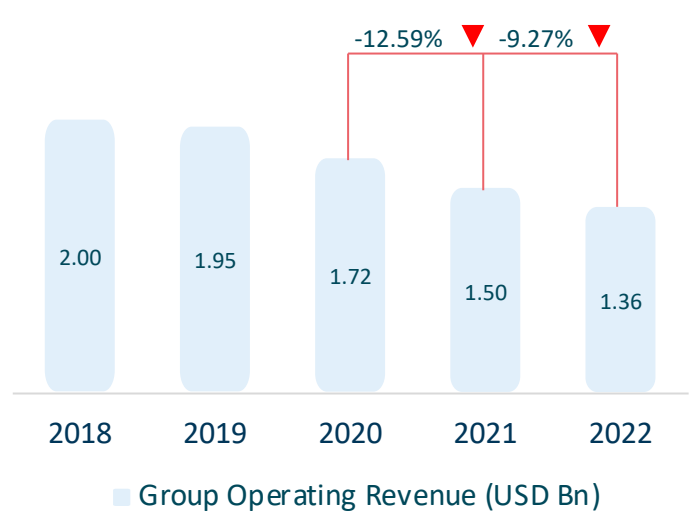
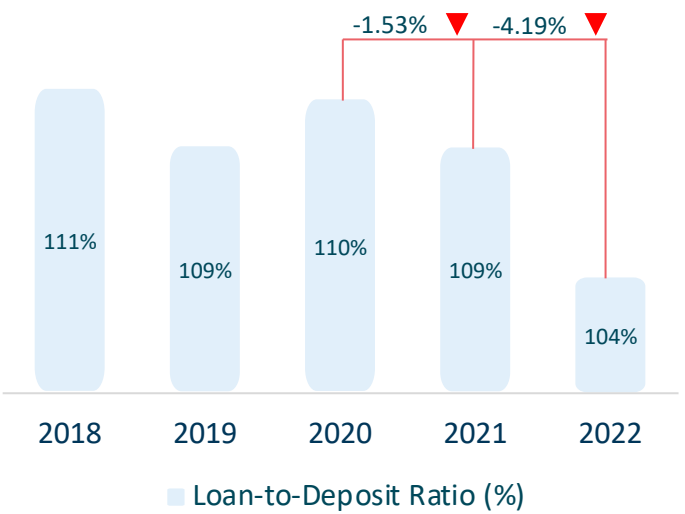
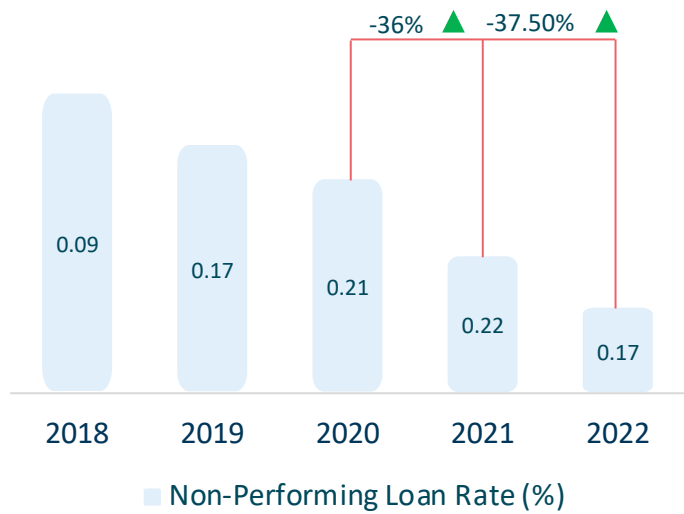
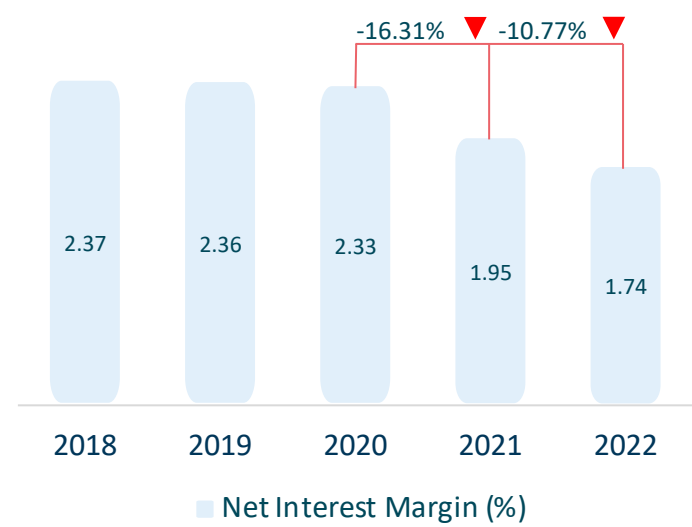
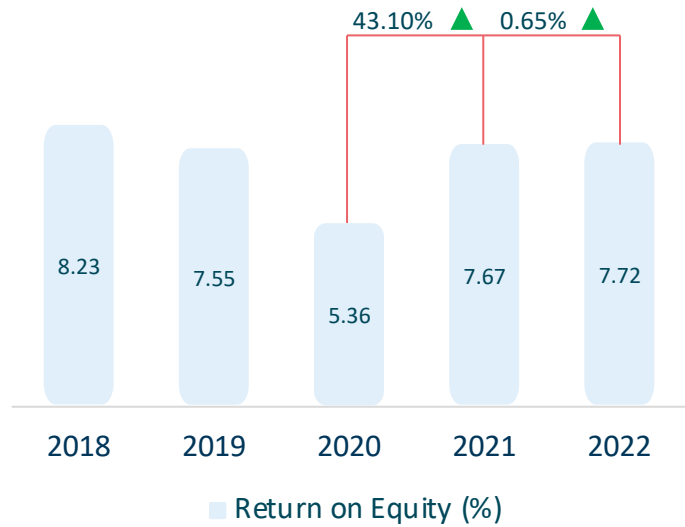
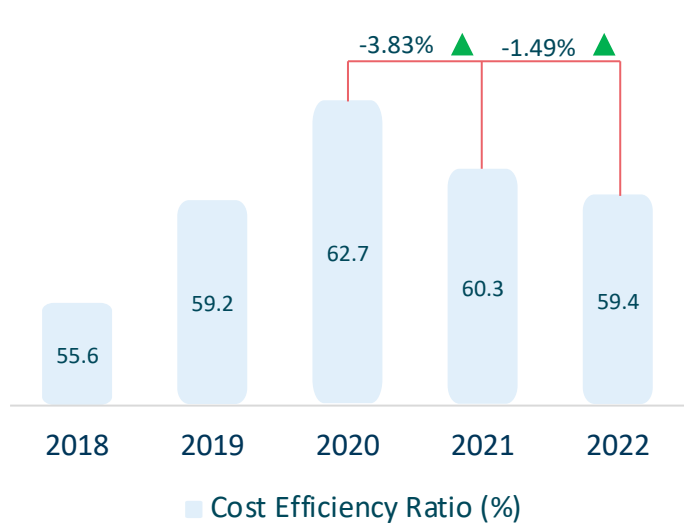
Strategic priorities

- 1 Reducing the cost to serve and simplifying business processes
- 2 Core banking modernisation
- 3 Making strategic alliances to grow adjacent revenue streams

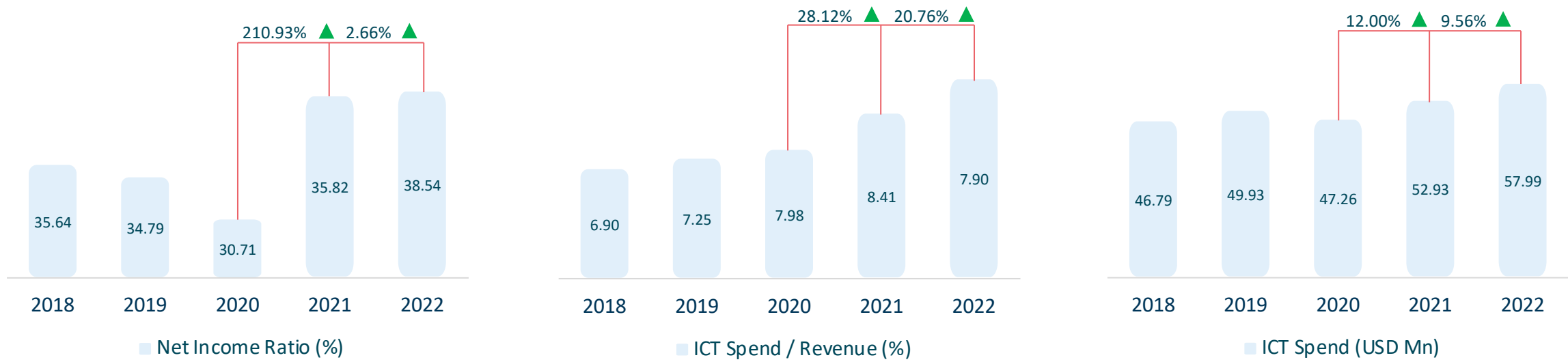
Awards

- ✓ **Most trusted financial institution in Australia** by Ray Morgan
- ✓ **Most trusted bank** by RFI Global
- ✓ **Sustainable Company of the Year** by Ethical Investor Magazine
- ✓ **Most recommended business bank** by DBM Australian Financial Awards
- ✓ **Best business bank customer service award** by DBM Australian Financial Awards
- ✓ **Most recommended investor home loan award** by DBM Australian Financial Awards

Financial highlights (1/2)



Financial highlights (2/2)



Measures of success

68% (Total customer base is active e-banking customers)
Digital sales reached 24% over FY2022

9.68% (vs 9.57% in FY2021)
CET1 ratio for the Group

27.4 (Annual relative NPS)
Well above the industry average

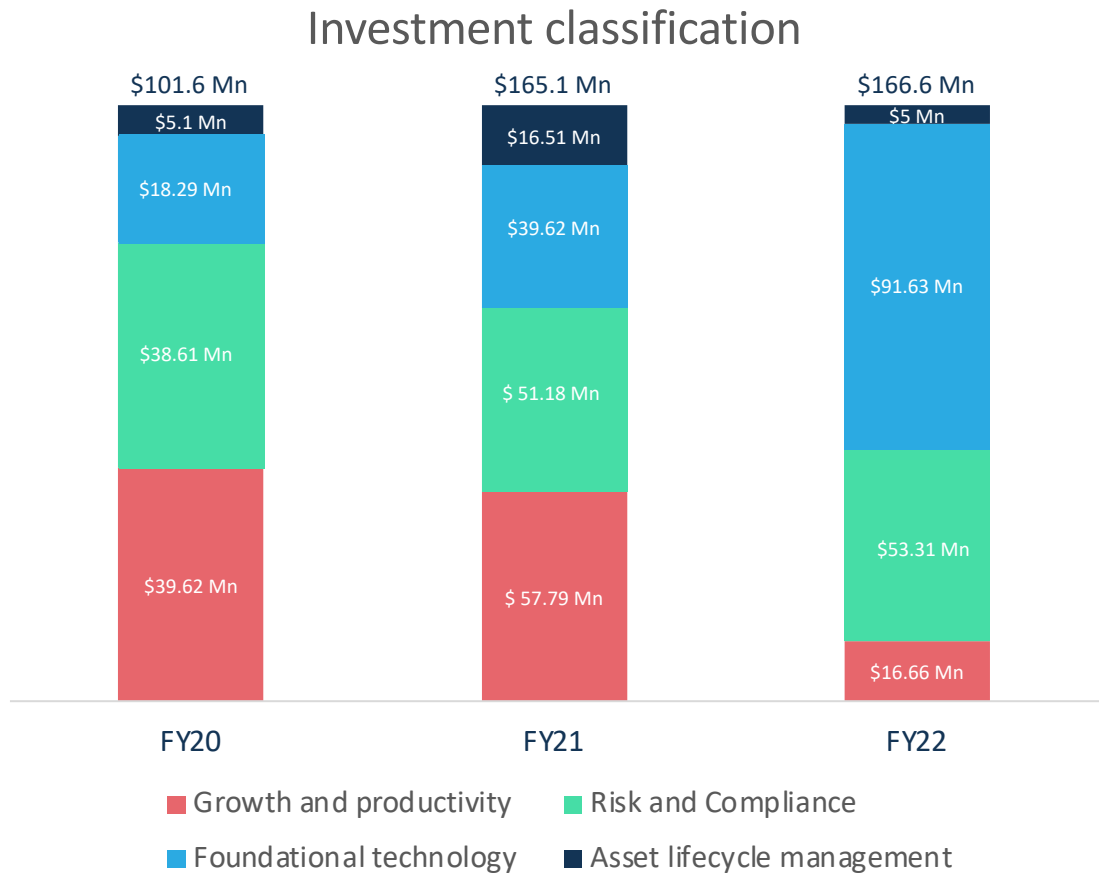
59.4% (vs 60.3% in FY2021)
Cost-to-income ratio

35 (Relative TSR percentile)
Vs. 47 in FY2021

7.72%
Return on equity

Note: Figures are for FY2022

Bendigo investment highlights FY2022



Bendigo categorises its investment spending into two categories – expended and capitalised.

Expended costs are costs which are incurred this year and are recorded in the income statement.

Capitalised costs are costs which will last beyond the current year, carrying economic value in the next year and are therefore recorded in the balance sheet.

During FY22, the expended and capitalised costs were 39% and 61% of the total investment value, respectively.

Source: Bendigo investor presentation

*All values in AUD Mn

Top 3 strategic focus areas

#1



Reducing the
cost to serve
and simplifying
business
processes

#2



Core banking
modernisation

#3



Making strategic
alliances to
grow adjacent
revenue streams

#1 Reducing the cost to serve and simplifying business processes

Bendigo is beginning to **simplify** complex business processes and **remove unnecessary costs** to make doing business easier.

- Bendigo has an ongoing multi-year business strategy built upon three imperatives: reducing complexity, investing in capability and telling its story.
- YoY (Year-on-year) reviews allows Bendigo to identify business opportunities to simplify its operating model, reduce risk and deliver cost savings.
- Since the onset of the strategy, the bank has been able to do the following to streamline its operating model:
 - Opened Divestment of Bendigo Financial Planning in August 2019
 - Operates Rural Bank Limited as a division of the Bendigo group with specialised services to Australia's rural and urban areas
 - Closed 23 branches and 15 agency outlets while the Community Bank partners opened four new customer service centres
 - Assumed 100% ownership of the community sector banking which is now integrated into the bank's operating model
 - Launched the Bendigo Complete Home Loan product encompassing 95 products into 1 to improve customer simplicity and flexibility
 - Identified 400 applications for rationalization to remove duplication, reduce risk and increase stability and support while reducing technology applications by 12%

#2 Core banking modernisation

Bendigo **continues to** reduce the number of **core banking systems** and technology applications it operates as part of its **transformation program**.

- Launched one core banking system during FY2022, with seven to date, aligning its strategy to create one bank-wide platform by FY2024
- Reduced IT applications from 650 to 491, with further reduced projections of 325 over the next two years
- Operates 20% of its application via the cloud, intending to have 50% of apps on it by FY2024 end
- Reduced the average time for home loan purchasing from 22 days in FY2019 to 13 days in FY2022; the end goal being the time taken will reduce to less than one day by FY2024 through its partnership with Tic: Toc
- Improve automated credit decisioning from the current 10% to 90% by the end of FY2024 as part of digitalization

#3 Making strategic alliances to grow adjacent revenue streams

Bendigo **invests in areas and capabilities** to future-proof the bank's business model and **enhance its customer experience**

Bendigo Express – Launched in partnership with Australian fintech Tic: Toc

- The platform is a digital home loan application and assessment process with quick online loan approval within **60 minutes**
- The proposition is **Australia's first fully digital loan offering** providing customers with loans at competitive interest rates
- Tic: Toc uses Artificial Intelligence (AI) to deliver significant efficiencies in home loan assessment compared to traditional processes
- The platform has processed more than AUD 4 Bn of applications since launch.
- Bendigo is an investor and has a 27% shareholding in Tic: Toc
- Bendigo recently launched **Up Home**, a feature of its digital-only bank Up, leveraging the Tic: Toc platform

Payto – Launched using real-time payments capabilities of the New Payments Platform

- Bendigo launched the PayTo digital payments service to offer new levels of control and transparency for its online and mobile banking customers
- The proposition is developed using the real-time payment capabilities of the New Payments Platform
- Customers can **securely pre-authorize any one-off or recurring payments** directly from their bank accounts
 - Access PayTo through their existing online or mobile banking platforms to **authorize or pause** the payment of bills, subscriptions, and one-off purchases

#3 Making strategic alliances to grow adjacent revenue streams

Bendigo **invests in areas and capabilities** to future-proof the bank's business model and **enhance its customer experience**

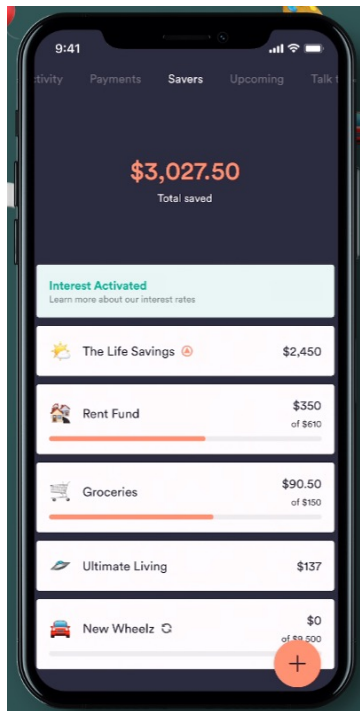
Bendigo invested in the following technologies as part of its strategic priorities:

- Up – Australia's **first digital-only** bank built in collaboration with fintech firm Ferocia
- The neobank was founded in 2018 and is based in Melbourne
- Up has surpassed initial expectations and has **over 550,000 customers** and **AUD 1 Bn in deposits** since its inception in 2018
- Primarily focuses on millennials and Gen-Z and offers features which are relevant to them
- Some of the initiatives taken by Up are:
 - Savers
 - Maybuy
 - 2Up
 - Save Up challenge
 - Up tracker

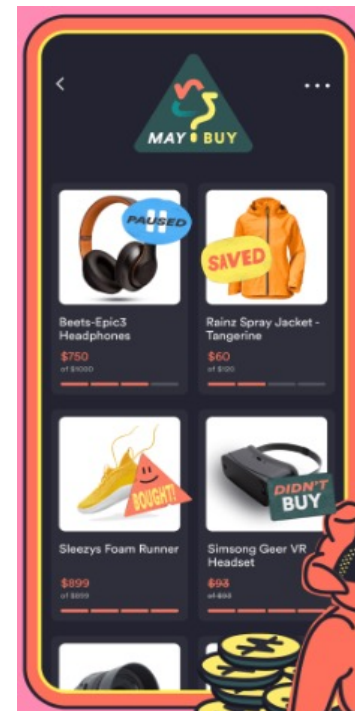
Up Bank – A collaboration with Ferocia



#1 – Saving tools



1. 'Savers' allow customers to save just for saving or for a particular expense
2. Savers can be used individually or with another person sharing the same goals
3. Savings can be automatically deposited in the saver every week, fortnight or month



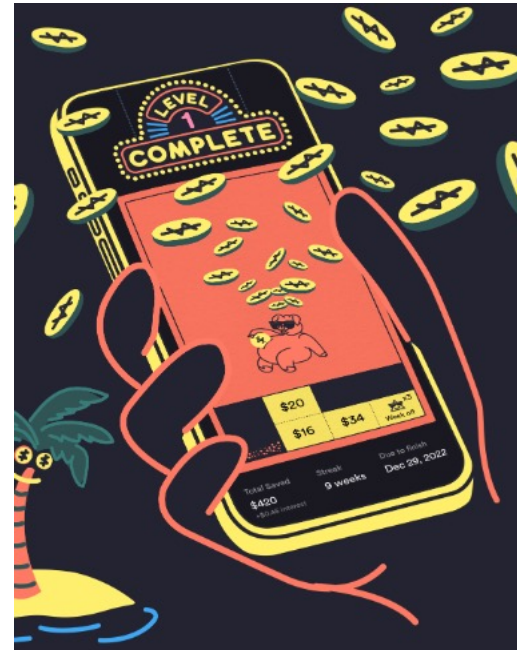
1. Maybuy is a form of Save Now, Buy Later (SNBL) model
2. Customers can add a product to the bank's app and start saving by picking a savings schedule
3. Allows customers to purchase products they really want with money they already have
4. Encourages customers to make smart financial decisions and eliminates impulsive purchases

Up Bank – A collaboration with Ferocia

#2 – Gamification



1. 2Up is an initiative for two individuals to share expenses, track spending and save towards a common financial goal
2. Allows 2 people to share their finances as one, separate from their personal accounts
3. Customers get a shared debit card, can set up joint savers and get instant digital cards

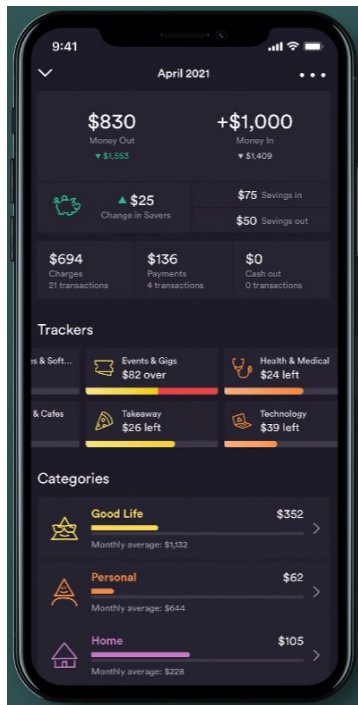


1. Save Up challenge aims to help customers save AUD 1000 in a year
2. Customers can choose an amount to set aside every week
3. The customers move up a level every week for each amount successfully saved
4. Customers can challenge their friends on their savings journey

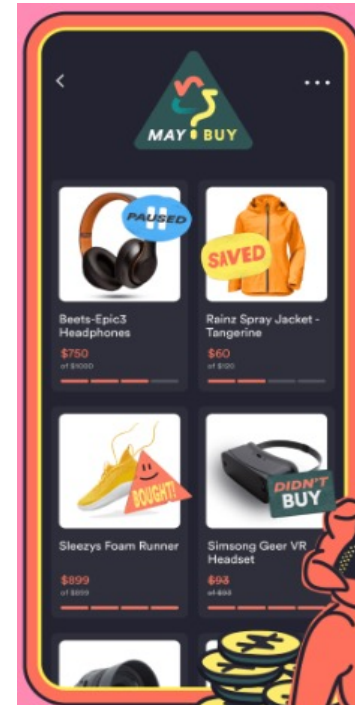
Up Bank – A collaboration with Ferocia



#3 – Budgeting and tracking



1. The Up tracker helps track spending on different categories
2. Choose from 40 available categories to set an upper spend limit on and track your monthly spending
3. Multiple trackers can be set on different categories and can be managed through 'Monthly Insights'



1. Upcoming bills allow you to manage all your subscriptions in one place
2. The app learns from regular charges and predicts when the next charge will be made
3. Track your expenses for better spending
4. Save on penalties in case of late fee payments

Bendigo's cloud strategy



Engagement with Contino:

- The partnership helped deliver a cloud adoption framework and establish efficient DevOps models to achieve immediate business benefits
- The dual delivery and upskilling approach supported Bendigo's ongoing organisational growth strategy
 - The dual delivery model enabled Contino consultants to facilitate the upskilling of Bendigo's engineers with day-to-day delivery
 - Cloud tools enabled a highly-skilled national team to improve the reliability and performance of the bank's systems
- The outcome was the migration of 32 workloads into AWS in 30 days, improved customer experience and speed of application deployment through automation

Partnership with AWS:

- Part of a multi-cloud migration project to improve outcomes for customers
- Bendigo is focused on improving its architecture to increase cost savings and improve the performance and availability of its digital offerings
 - Started running its nonproduct workloads on Amazon EC2 Spot Instances
- Achieved resiliency and scalability by implementing other AWS features for fault-tolerant workloads
- Reduced compute costs by 60%, increased the resiliency of its workloads by 30% and improved the performance of its banking system by 20%

Top 4 growth opportunities

#1



Enhancement of
the branch
network

#2



Cost to serve

#3



Open banking

#4



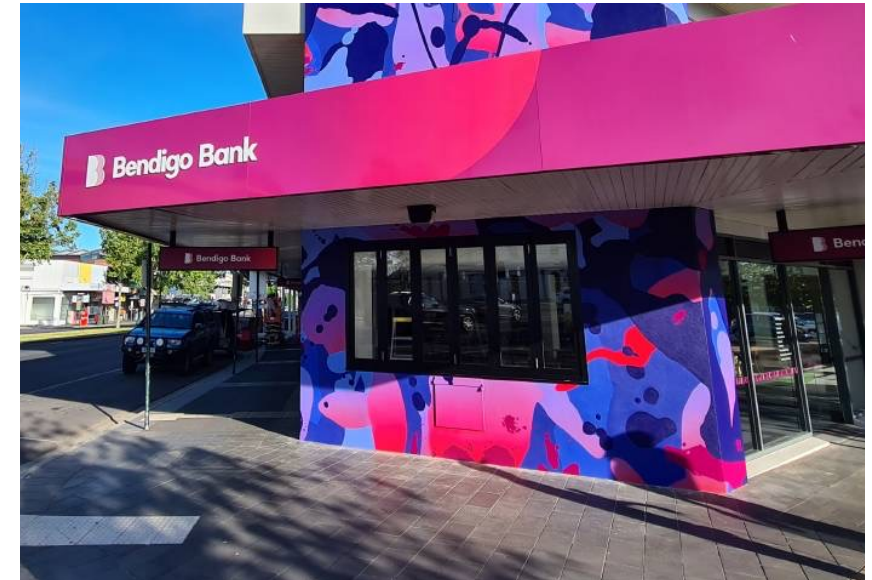
Buy Now Pay
Later (BNPL)

#1 Enhancement of the branch network

Observations

Bendigo's current branch network:

- Current branch network at Bendigo comprises a network of corporate branches, community-owned branches, and agencies.
- Branch staff is trained to provide digital literacy and education on digital banking solutions to customers who are unable to engage digitally.
- Launched a trial phase of a dedicated **digital coach** in FY2022, who works closely with the branch staff to ensure customers receive personalised support based on their digital capability.
- The bank has six modernised '**branches of the future**' with a focus on feeding into prosperity.
- The increase in digital self-service options empowers customers to transition from over-the-counter transactional services to side-by-side human interactions focused on more complex transactions.
- An ongoing partnership with Australia Post gives Bendigo customers access to transaction services at **3,500 local post offices** across Australia.
- The bank partnered with Dementia Australia to develop an in-branch dementia-friendly environment and online learning for better banking for people with dementia.



*Bendigo's new modernized 'branch of the future' at Mitchell Street, Bendigo, Victoria

#1 Enhancement of the branch network

Analyst View

Key Highlights

- Digital sales reached 24% over FY2022
- 68% of customers are active e-banking customers
- 51 branches and office locations have rooftop solar systems installed (10% of the total branch network)
- Provided banking services to more than 500 communities

Consolidation of branches:

- Bendigo have been closing branches with low customer footfalls
- Consolidate branches within close proximity into a flagship digitalised branch with in-branch financial trainers and digital coaches to educate customers about the bank's digital products and services
- Integrate Augmented Reality (AR) and Virtual Reality (VR) to create a virtual branch experience
- Establish self-service kiosks to cater to the increasing number of digital users so they can conduct their basic banking transactions without the need for human intervention



*A flagship digitalized branch with smart self-service kiosks and in-branch advisors

#2 Cost to serve

Observations

Key Highlights

Year-on-year change from FY2021 to FY2022:

✓ Net interest income	▼	0.45%
✓ Fee & commission income	▼	6.31%
✓ Other income	▼	44.82%
✓ Staff expenses	▲	2.42%
✓ Occupancy expense	▼	0.55%
✓ Software expenses	▲	9.57%
✓ Net interest margin	▼	10.77%

Observations

The current cost-to-income ratio for the bank is at 59.4%, down from 60.3% in FY21.

Other income:

- Decline in other operating income is driven by the reduction in Homesafe unrealized revaluation gains, resulting from changes to the valuation assumptions. This reflects the changes in the fair value of investment property.

Staff expenses:

- The total number of employees increased by 3.77%, resulting in the increase of staff expenses. Another reason for the increase in staff expenses was wage inflation.
 - However, the cost per employee decreased from AUD 131,563 in FY21 to AUD 129,858 in FY22.

#2 Cost to serve

Analyst View

Net interest margin (NIM)

- NIM reduced from 1.95% in 2021 to 1.74% in 2022, indicating a decline in investment efficiencies. This offsets the increase in net interest income due to the growth in the lending portfolio at Bendigo.
 - NIM has declined because of the continued pricing pressure in mortgages, a change in customer preferences for fixed-rate loans and a higher balance of lower-yielding liquid assets.
 - The fee and commission income at Bendigo has also declined, which the bank should focus on increasing.
 - Fee and commission income is at 11.62% of the total income, which is below the APAC average of 14%.
 - Bendigo can leverage its open banking APIs to generate fee income from third party financial service providers.



Loan-to-deposit (LDR) ratio

- The LDR ratio for the bank has slightly decreased from 109% to 104% during 2021-22.
 - The increase in deposits is at 12.64%, whereas the increase in loans was less at 7.91% resulting in an overall decline in the LDR.
 - Despite having a high LDR ratio, Bendigo could disburse more loans to offset the higher increase in deposits and improve its LDR ratio further.



#3 Open banking

Observations

Bendigo's current standing:

- Bendigo is a data holder that shares its customer data with Customer Data Right (CDR) accredited service providers who offer a financial product or service via their app or website, such as a budgeting or insurance comparison tool.
- Bendigo customers above 18 have access to e-banking and make use of the service where their account details, transaction history and account balances are shared with the third party.
- The banking data can only be requested from an accredited provider's website or app. If the product requires access to the customer's banking data, it will ask to do so and then the customer can choose to give permission to it through Bendigo's website.

Analyst View

Benefits of open banking for Bendigo:

- Salary on demand – The bank can introduce this new and increasingly popular feature among consumers. This feature is being offered by neobanks like Jupiter in India.
 - Customers can withdraw up to a predefined amount of money based on their salary at any time of the month, and pay it back in full or in equal instalments. This provides them with money when they require it the most.

Benefits of open banking for Bendigo's customers:

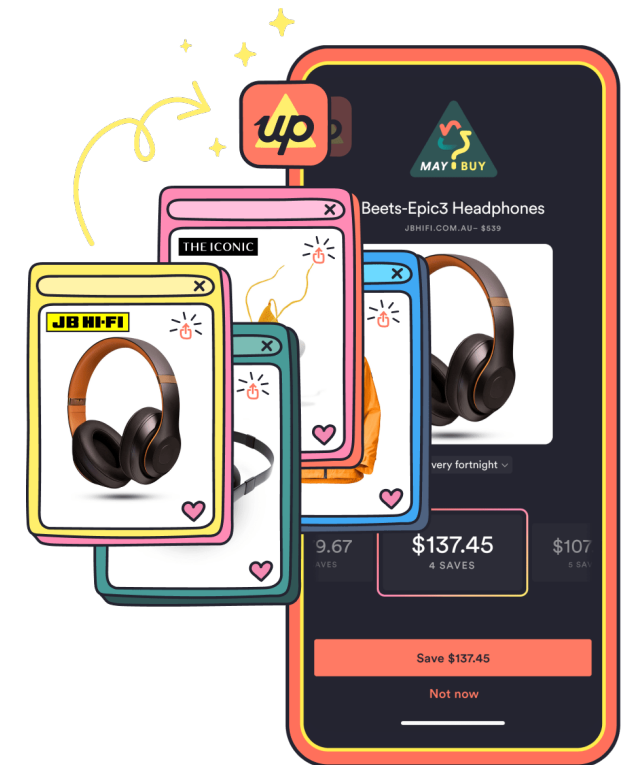
- Access a wide range of products and services by sharing their financial data with third-party financial service providers.
 - Data sharing saves money on loans, mortgages, insurance plans, etc., by comparing them with similar offerings from other service providers.
- Consolidate all their bank accounts into one app for better visibility and control over their finances.

#4 Buy Now Pay Later (BNPL)

Observations

Bendigo's current offering:

- Currently, Bendigo does not offer a BNPL service.
- Up, the digital-only bank, operated by Bendigo offers a service called 'Maybuy', a form of a 'Save Now, Buy Later (SNBL)'.
 - Up customers can share a product they find online on the Up mobile app and create an individual savings plan for the product.
 - Customers can pick a savings schedule that suits them, and the app will tell them how much they need to save based on the schedule they choose.
 - Once the savings goal for the product is reached, the app sends out a notification informing the user that they can now make that purchase.
- The concept behind Maybuy is that customers might make an impulsive purchase decision which they might regret later, with money they don't have using a BNPL service or a credit card.
 - Maybuy allows customers to save for the product, allowing them to save the money to buy their desired products. In doing so, customers are encouraged to make smart financial decisions and avoid impulsive purchases.



#4 Buy Now Pay Later (BNPL)

Analyst View

Opportunities:

As per a [survey](#) by Australian Finance Industry Association (AFIA), there are almost **six million** active BNPL accounts in Australia, totaling around **AUD 12 Bn** in transactions for FY2022

“BNPL payment adoption is expected to grow steadily over the forecast period, recording a **CAGR of 32.5%** during **2022-2028**”

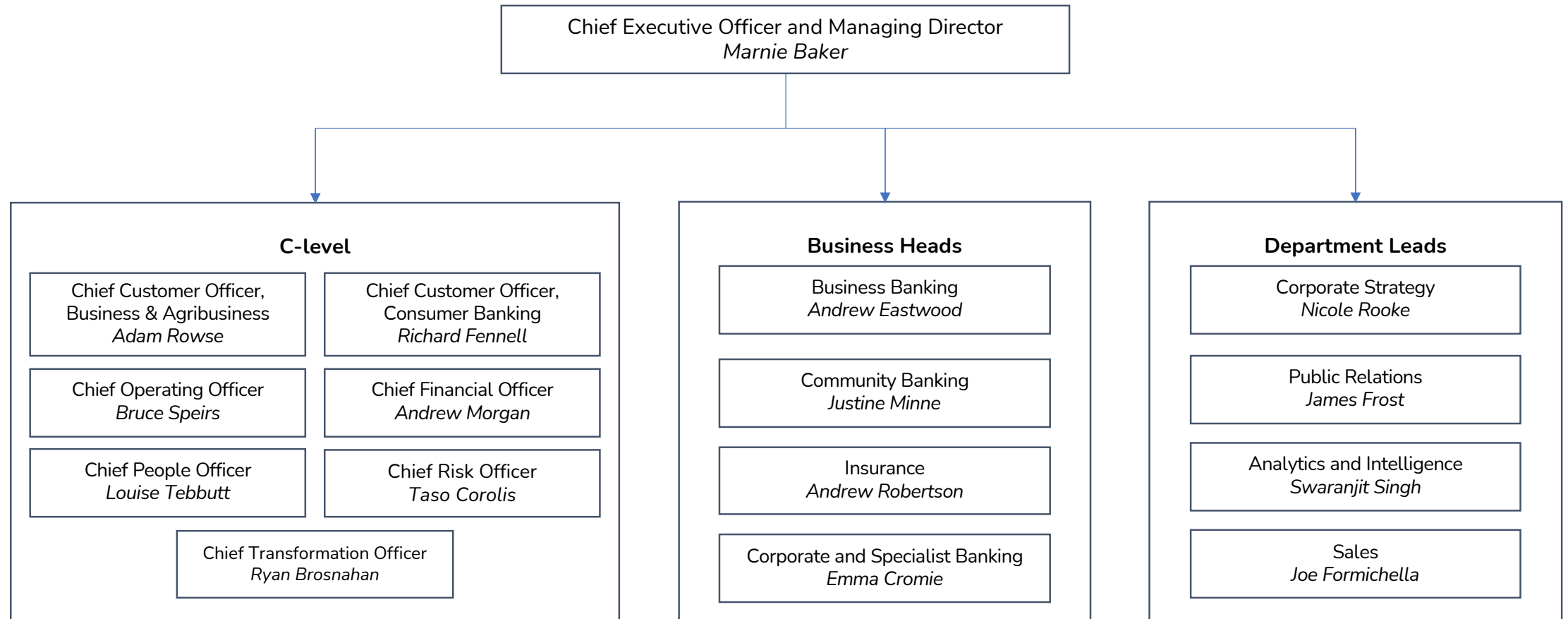
~ [Globe News Wire](#) (Oct 2022)

A competitive BNPL offering:

- Bendigo has argued that BNPL services, although popular, are no better than using credit cards, as most of the BNPL services use rigid and unrewarding approaches.
 - It can be argued that BNPL services give customers access to a longer interest-free repayment stream over a few months when compared to credit cards, which are generally limited by their credit cycles
- Offering a BNPL service will allow Bendigo to increase its customer engagement, wallet share and customer loyalty by offering a more convenient shopping experience
 - CBA and NAB already offer BNPL services
 - StepPay is CBA's BNPL service, which gives customers the option to split purchases over AUD 100 or more into four instalments with an initially approved limit of up to AUD 1000.
 - NAB Now Pay Later is in NAB's BNPL service, which provides customers with a credit limit of up to AUD 1000 in the form of a digital card, which they can use to make payments in interest-free instalments.
- Bendigo already has access to their customer's credit histories, making it easier for them to determine the creditworthiness of their customer to see if they can make the repayments on time.

Appendix

Key decision-makers



Marnie Baker



Group CEO and MD

- Became the Managing Director of Bendigo in July 2018
- Has been with Bendigo since 1989
- Has over 33 years of experience in the finance industry

Success of the ongoing business strategy:

“ Our solid FY22 results further demonstrated our capability to deliver on our promises, in the face of economic headwinds and global uncertainty. We delivered continued growth in loans, deposits and customer numbers and our cost-to-income ratio has declined for the second consecutive year. ”

Commitment to strengthening communities:

“ I look forward to continuing to work closely with our Community Bank partners in FY23, as we work together to evolve the successful Community Bank model we have built together for the next 25 years and beyond. While much has changed in the world of banking, I believe there will always be an appetite from consumers for a genuine and competitive, community-minded alternative. ”

*Direct quotes derived from the 2022 Bendigo Annual Report

twimbit be more



Insights



Immersions



Challenges

How can we help?

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