

State of Australian Banks 2023

Driving revenue growth
from digital adjacencies

twimbit



Market Highlights (1/3)



01

Australian banking industry will continue to face challenges in 2023 as inflation hits 7% in December 2022.

- The **fall in mortgage** demand and **rising interest rates** will be of utmost concern as inflation can limit borrowers' ability to repay loans and **increase NPLs**.
- The **rise** in inflation and a **marginal increase** in GDP pressures banks' operational revenues.

02

Big Four benefit from the Reserve Bank of Australia's eight successive interest rate hikes.

- As of December of 2022, the RBA cash rate is 3.10%
- Rising inflation will force the RBA to further increase interest rates, leading to a fall in bank lending and NIMs.
- The fall in NIMs will be accompanied by an increase in provisions for bad debts as borrowers struggle to repay their loans.

03

Banks are likely to save on their operating costs to offset the impact of declining NIMs on net profits, evident by branch closure and staff reduction.

- Between June 2017 and 2022, banks have collectively closed more than **1,600 branches**, with an inordinate number of branches located in regional Australia.

Market Highlights (2/3)



04 Australian government is regulating the BNPL industry under credit laws where BNPL firms will need to hold credit licenses.

- The BNPL industry boomed during the pandemic but has since struggled with high-interest rates and stricter regulations.

05 A lack of funding and the challenging regulatory landscape leads to the neobank industry slowly dying, with major neobanks like Volt closing operations.

- In 2021, NAB overtook :86 400 and merged it into its ubank subsidiary
- In May 2022, the neobank retired and became part of the rebranded “ubank”
- Founded in 2018, Up later merged with Bendigo and now operates as an independent arm of the bank

Market Highlights (3/3)



06

Shift from home lending to institutional banking – Banks are diversifying beyond residential mortgages as the market is gripped by intense competition.

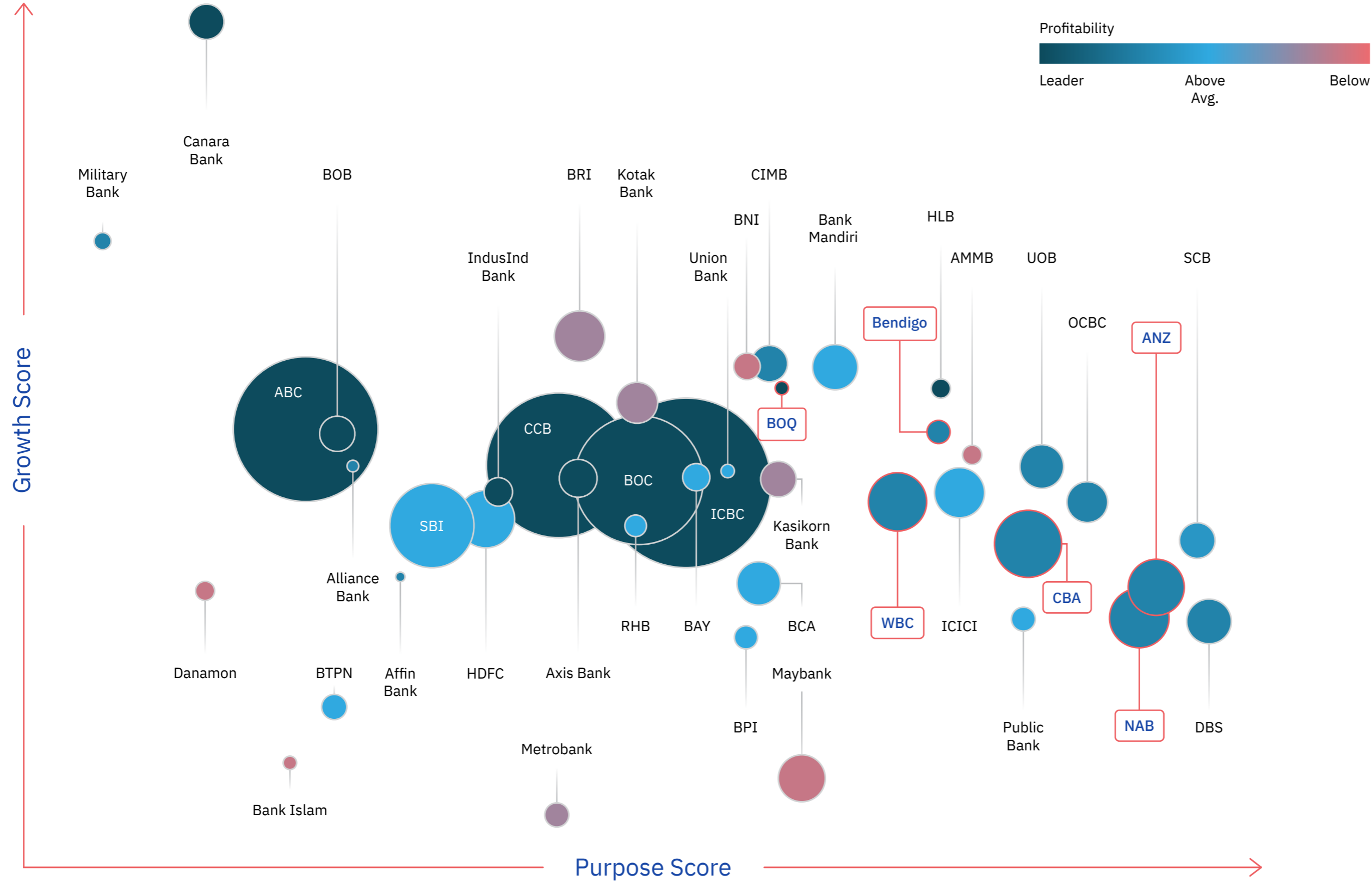
- Borrowers are switching banks in order to get better deals on their home loans which is making it difficult for banks to retain their existing customers and attract new ones.
- The fierce competition in the market is causing a decline in the net interest margins which have been continuously declining for the past 30 years.
- The mortgage lending growth slowed to 5.5% in FY23 from 7.9% in FY22.

07

Business and product simplification – In an increasingly challenging business landscape with declining revenue and profitability, banks must persevere with their efforts to simplify operations and embrace digitalization. These strategies are crucial for enhancing efficiency and effectiveness in their operations.

- Westpac has reduced its product offerings from 1191 in FY20 to 785 in 1H23.
- The bank has also sold nine non-core businesses since FY20.

twimbit Purpose Index



- ABC - Agricultural Bank of China
- ANZ - Australia and New Zealand Bank
- BCA - Bank Central Asia
- BNI - Bank Negara Indonesia
- BOB - Bank of Baroda
- BOC - Bank of China
- BOQ - Bank of Queensland
- BRI - Bank Rakyat Indonesia
- CBA - Commonwealth Bank
- CCB - China Construction Bank
- HLB - Hong Leong Bank
- ICBC - Industrial and Commercial Bank of China
- NAB - National Australia Bank
- UOB - United Overseas Bank
- BPI - Bank of the Philippine Islands
- SCB - Siam Commercial Bank
- BAY - Bank of Ayudhya
- BTPN - Bank Tabungan Pensiunan Nasional

Key challenges



1. High Loan-to-Deposit Ratio

- Australian banks have historically had high LDR as loans comprise most of their total business.
- The current LDR for Australian banks is at 106.16%
- The Australian market has a strong credit demand for housing loans.
- Low-interest rates have led to borrowing surges and deposit reductions.
- High LDRs pressure banks to maintain sufficient reserves and cover unexpected cash runouts.

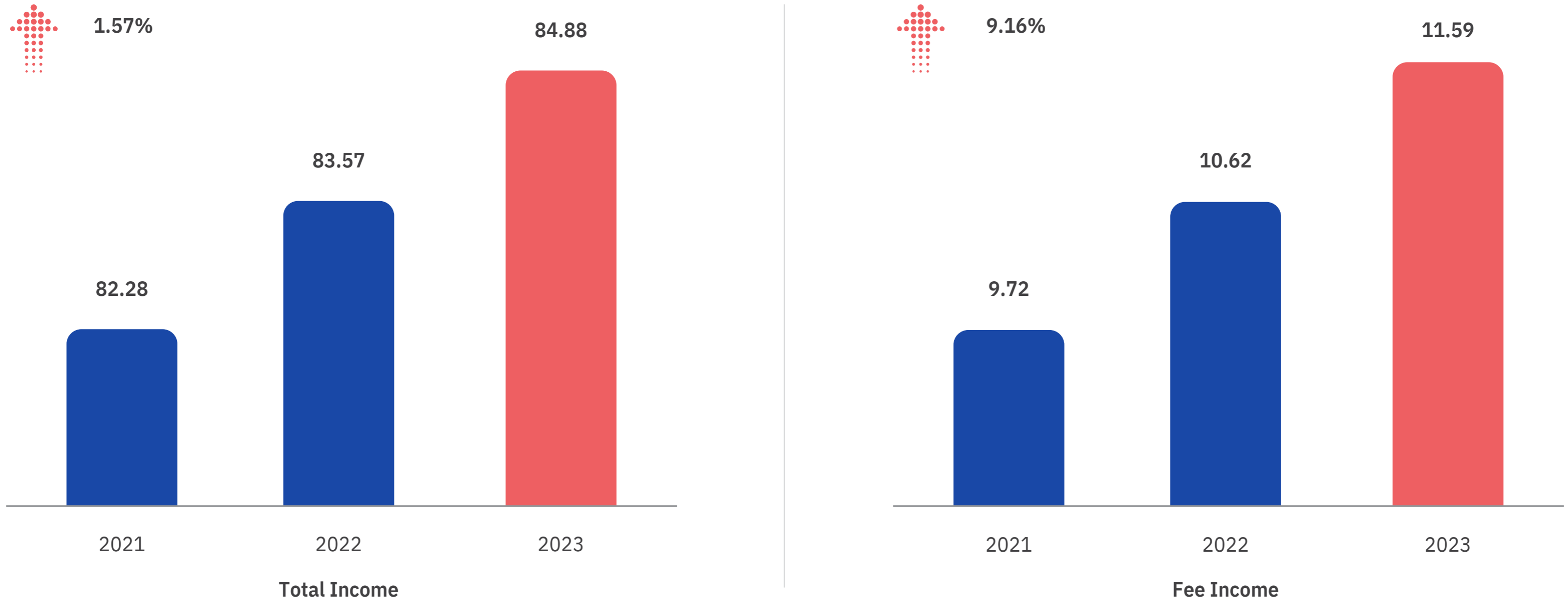


2. Low Net Interest Margins

- NIM declined from 2.13% in 2018 to 1.77% in 2022.
- NIM is below the APAC average of 3.08%
- The primary drivers for the decline are:
 - Lower home loan margins.
 - Continued pricing pressure on mortgages.
 - Change in customer preferences from fixed-rate to floating-rate loans.
 - Higher balance of lower-yielding liquid assets.

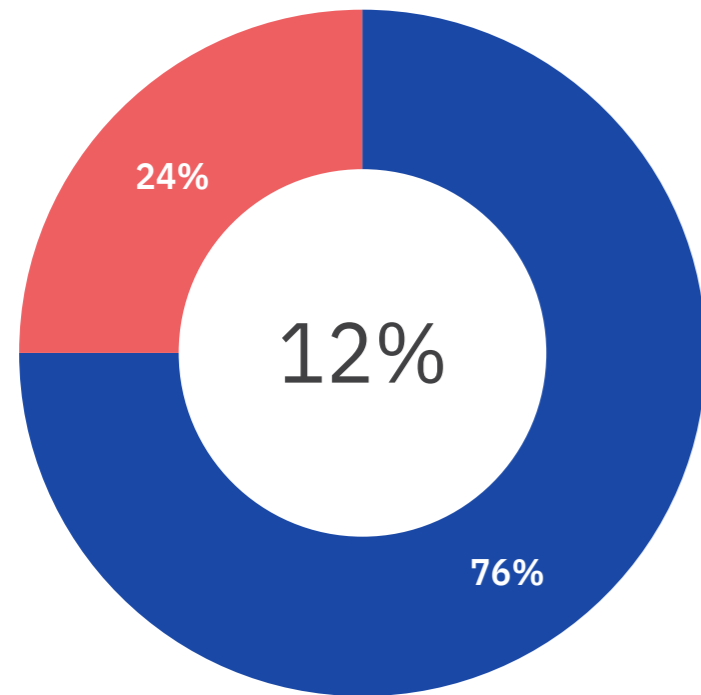


Consolidated operating income and fee income of top 6 Australian banks

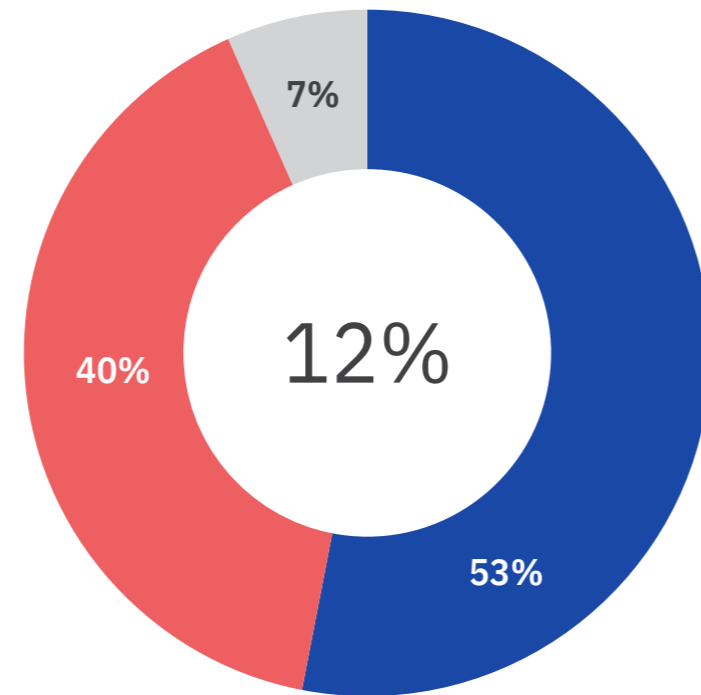


Figures in AUD Bn

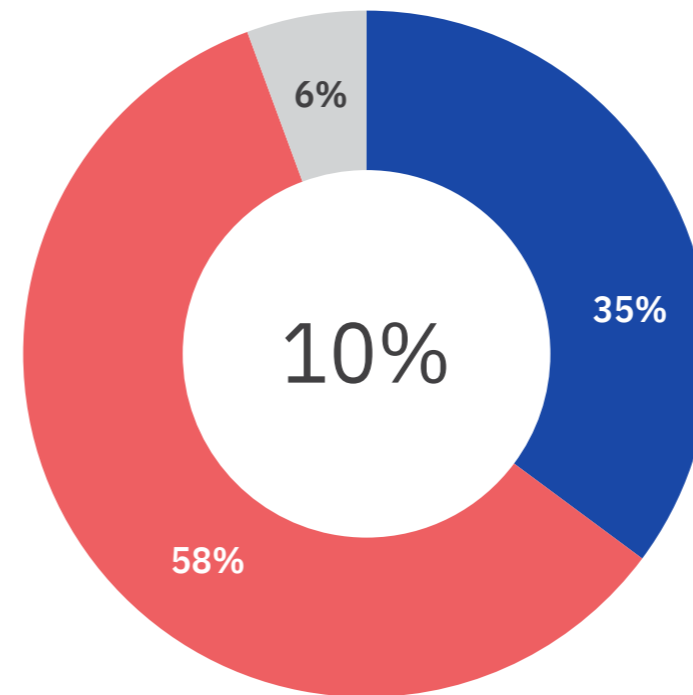
Top 4 banks to champion fee-based income



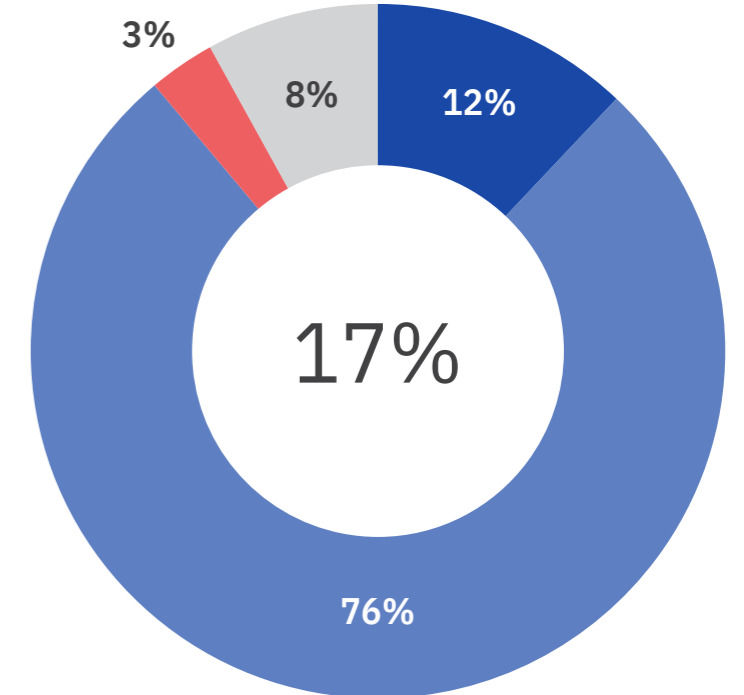
- Commissions
- Lending fees



- Lending fees
- Others
- Investment management income



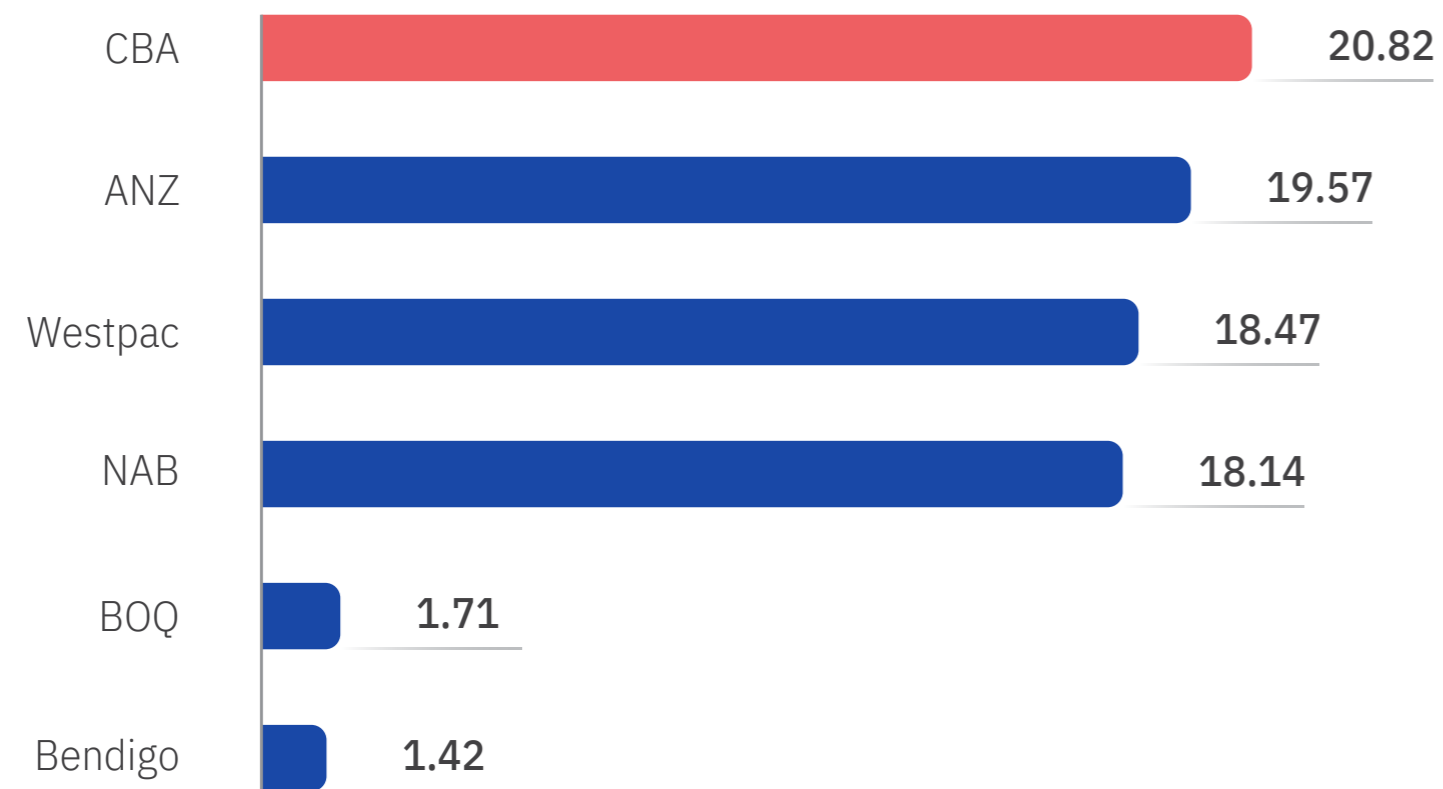
- Facility fees
- Transaction fees
- Other non-risk fees



- Lending fees
- Non-lending fees
- Commissions
- Funds management income

Australian Banks' fee income to revenue is 9%, the lowest among APAC banks

Operating Revenue (USD Bn), 2022



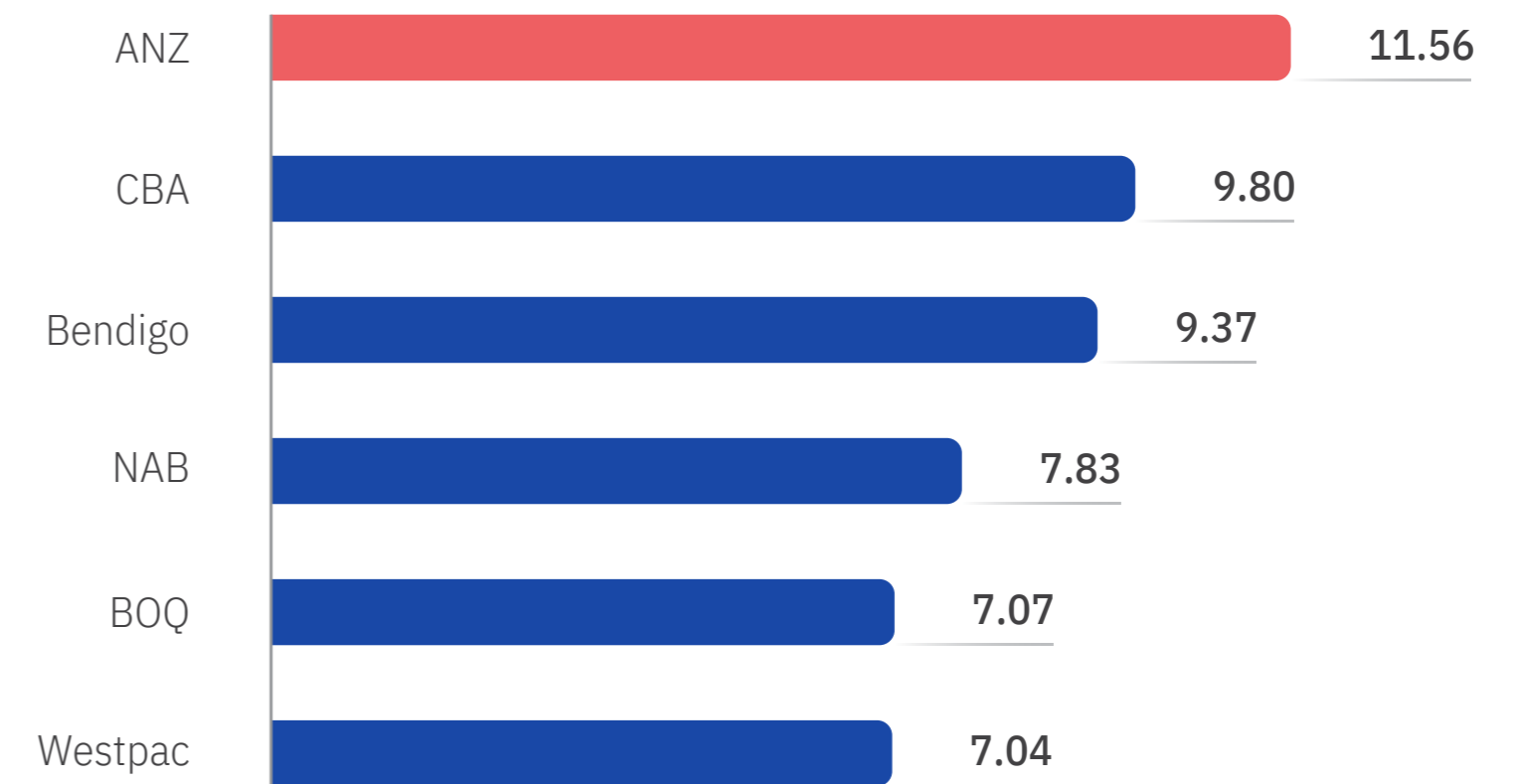
27.17 USD Bn

APAC Average

215.1 USD Bn

ICBC
Best in class

Fee Income to Revenue (%), 2022



12.07%

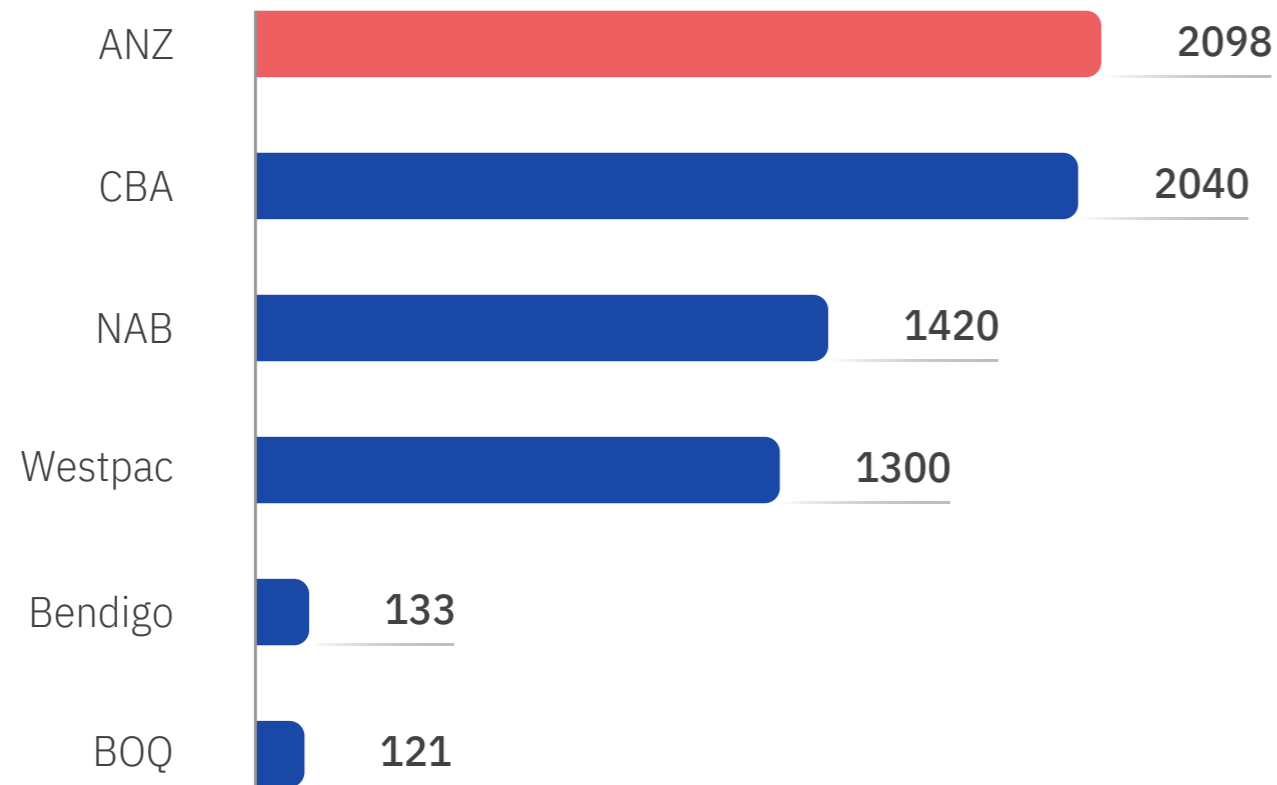
APAC Average

26.05%

SCB
Best in class

ANZ Bank generates the highest fee income at 11.56% of total revenue

Fee-based income (USD Mn), 2022



ANZ bank reports fee income generated through its retail, commercial and institutional divisions in Australia and its New Zealand (NZD) division.

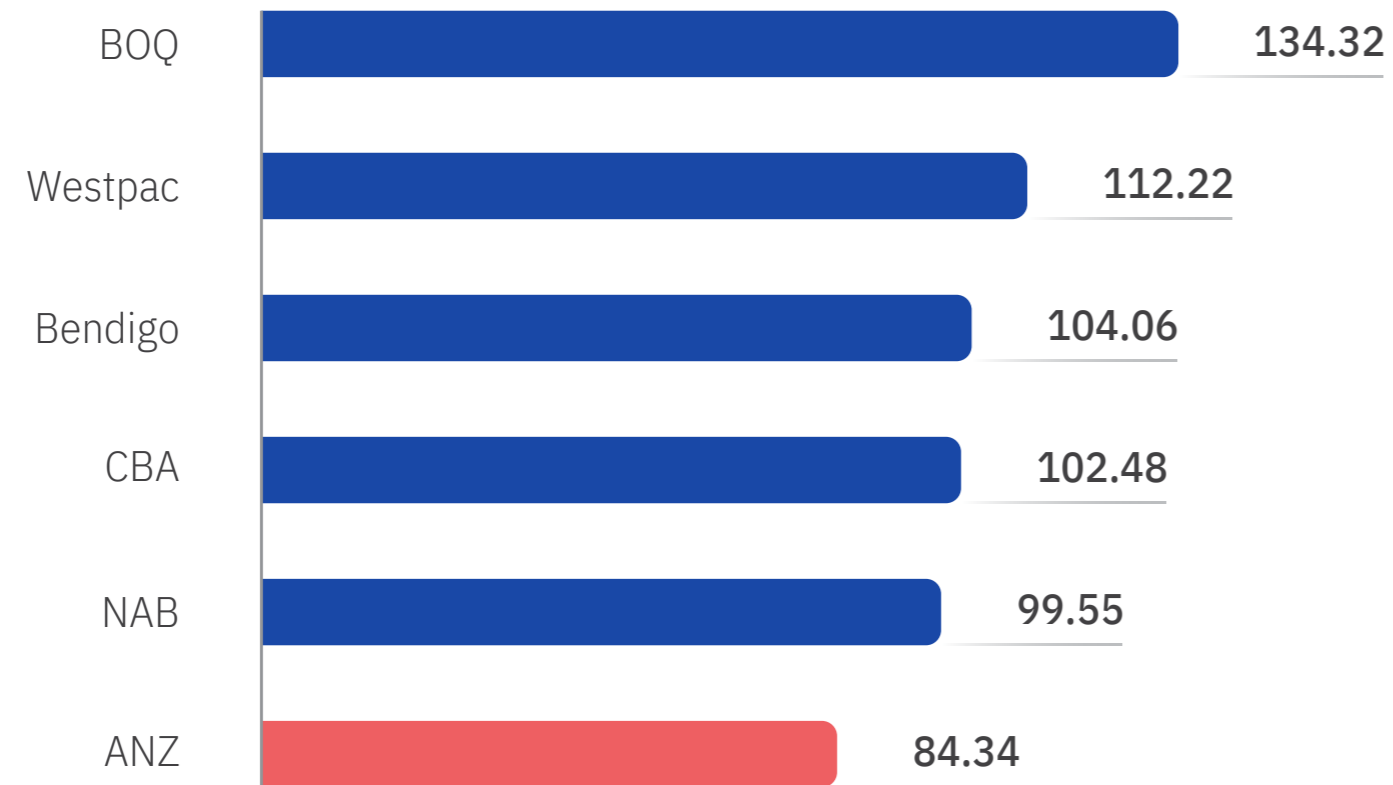
ANZ generates more than 76% of its fee income from lending fees

Fee & commission income	2021	2022	YoY
Lending fees	317.58	250.58	-21.10%
Non-lending fees	1709.84	1603.98	-6.19%
Commissions	64.99	69.01	6.19%
Fund management income	192.29	174.87	-9.06%
Consolidated total	2284.7	2098.44	-8.15%

The fee and commission income for ANZ decreased by 8% from USD 2285 Mn in 2021 to USD 2098 Mn in 2022 driven by Breakfree package fee changes in the Australian Retail division, lower divested business results and removal or reduction of funds under management fees in the New Zealand division.

High LDR and cost efficiency place Australian Banks at risk of uncertain cash runouts

Loan-to-Deposit Ratio (%), 2022



87%

APAC Average

~85.8%

ANZ, BOC, Axis, Mandiri
Best in class

Cost Efficiency Ratio (%), 2022



45.3%

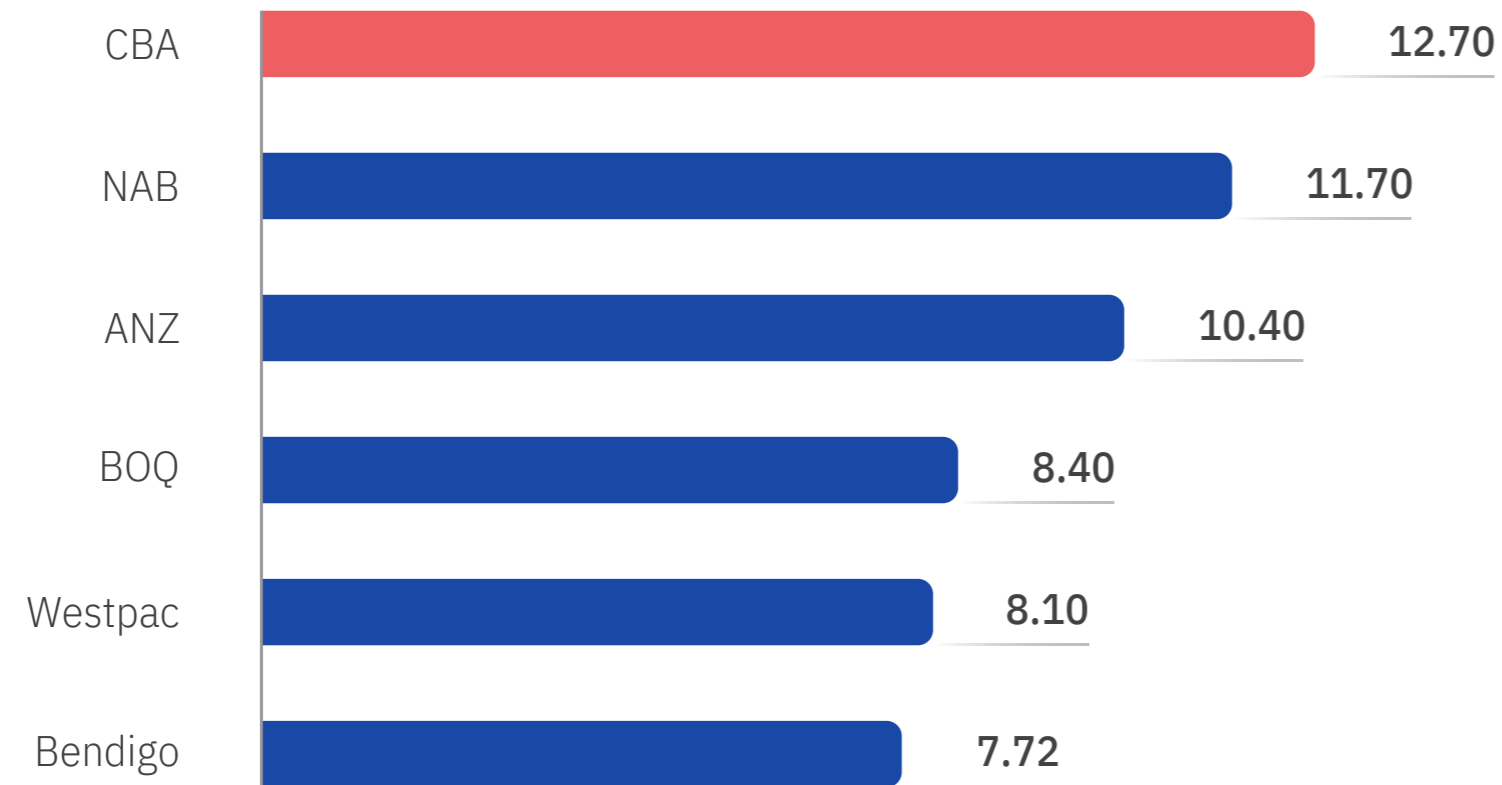
APAC Average

26.53%

ICBC
Best in class

Banks operate in a highly competitive lending market with the lowest interest margins despite RBA hikes

Return on Equity (%), 2022



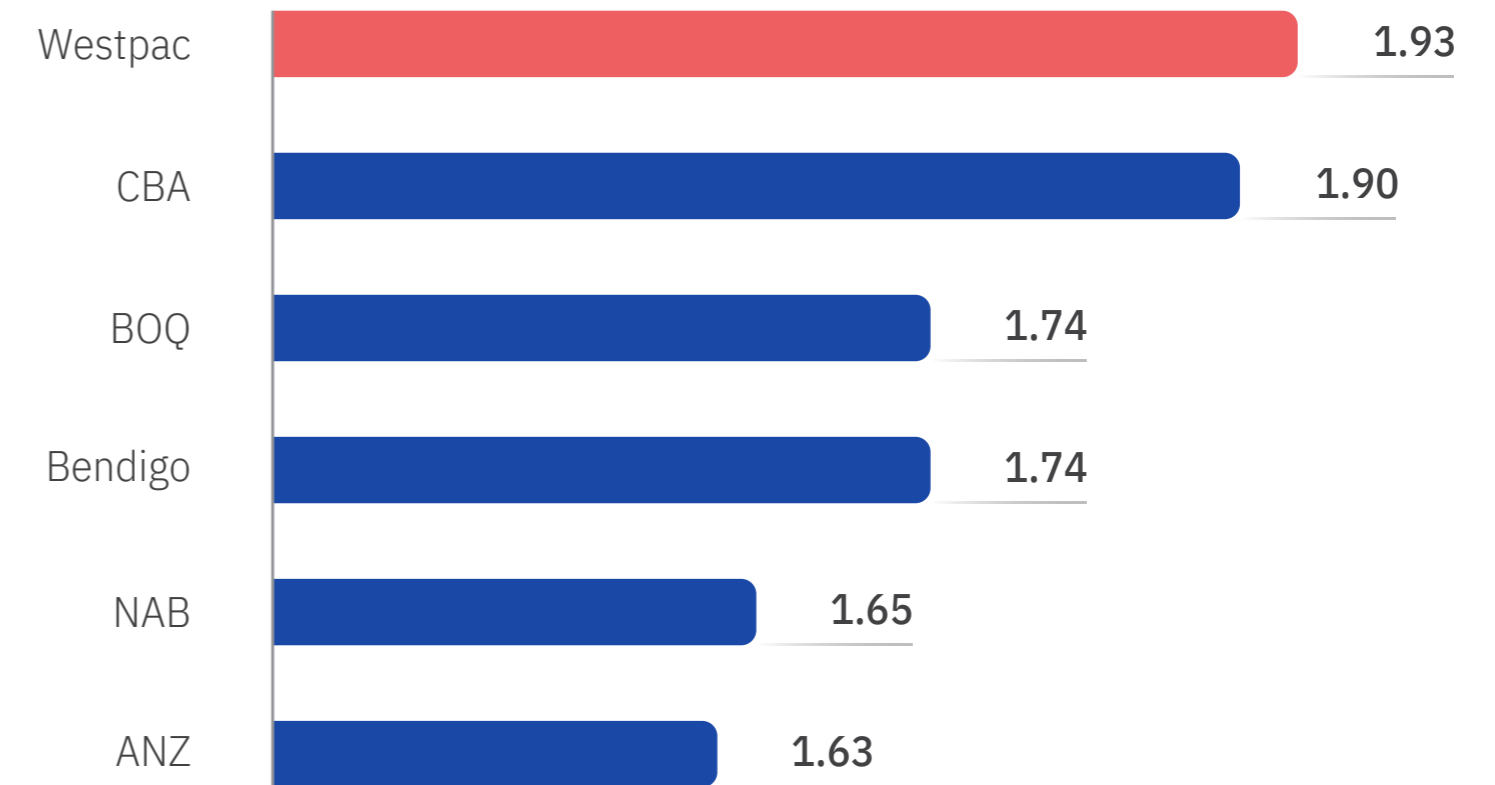
11.77%

APAC Average

21.7%

BCA
Best in class

Net Interest Margin (%), 2022



3%

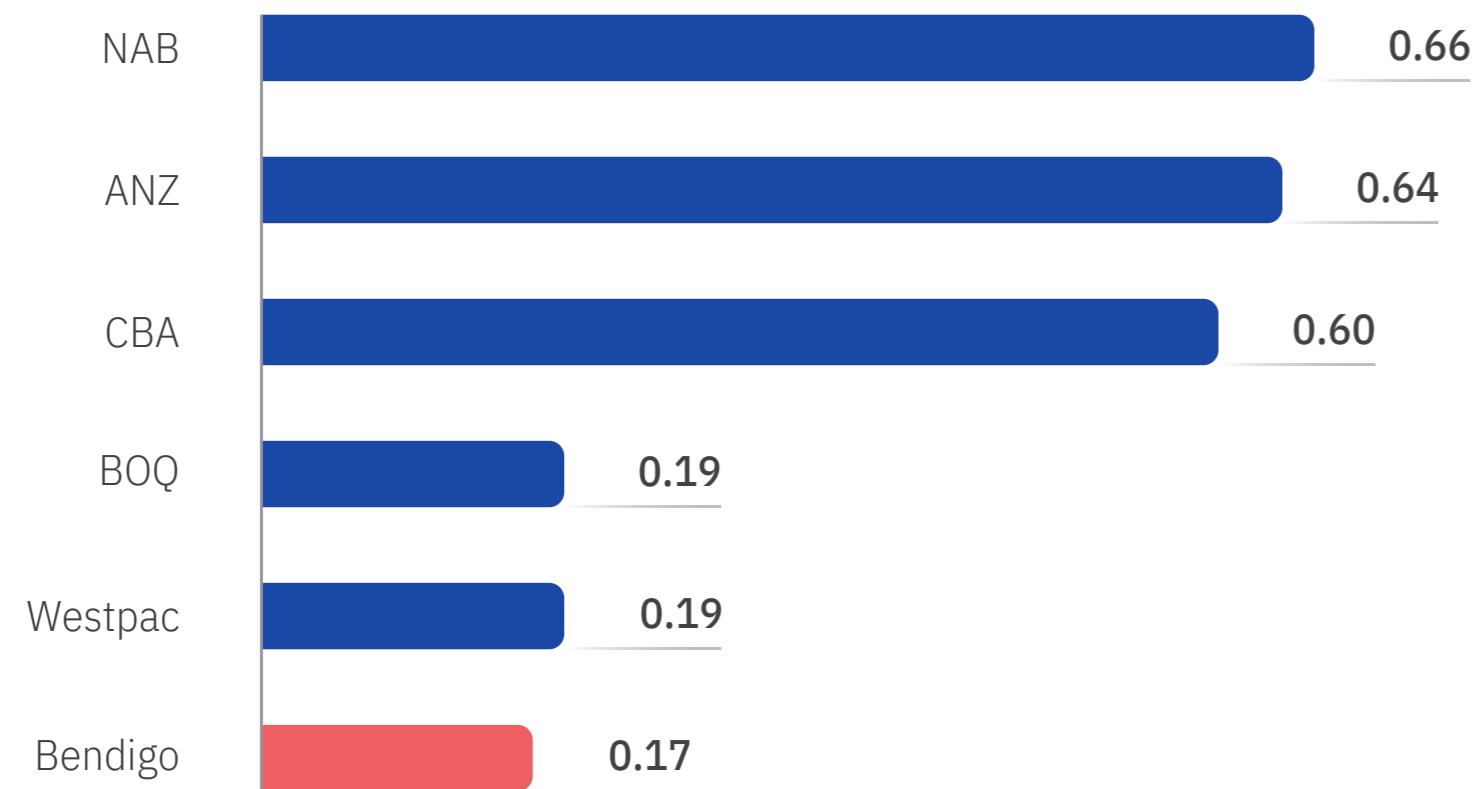
APAC Average

7.85%

BRI
Best in class

With 6 million mortgages in Australia, NPLs remain less than 1% which is the lowest among APAC banks

Non-Performing Loans Ratio (%), 2022



2.14%

APAC Average

0.17%

Bendigo
Best in class

Common Equity Tier 1 Ratio (%), 2022



15.56%

APAC Average

26.7%

Danamon
Best in class

ICT spending continued to be high in 2022 compared to 2021

ICT spend to revenue (USD Mn), 2022



The bank saw a 27% **decrease** from USD 2096 million to USD 1529 million due to software and amortization write-downs, and a reduction in depreciation expenses.



There is 16% **increase** in ICT spend from USD 1363 million to USD 1581 million driven by higher amortization and increased costs for IT infrastructure, maintenance, cloud computing, storage volumes, and software licenses.



2% **increase** from USD 1064 million to USD 1086 million was primarily due to higher expenses for software licenses and increased investment spending, partially offset by reduced amortization.



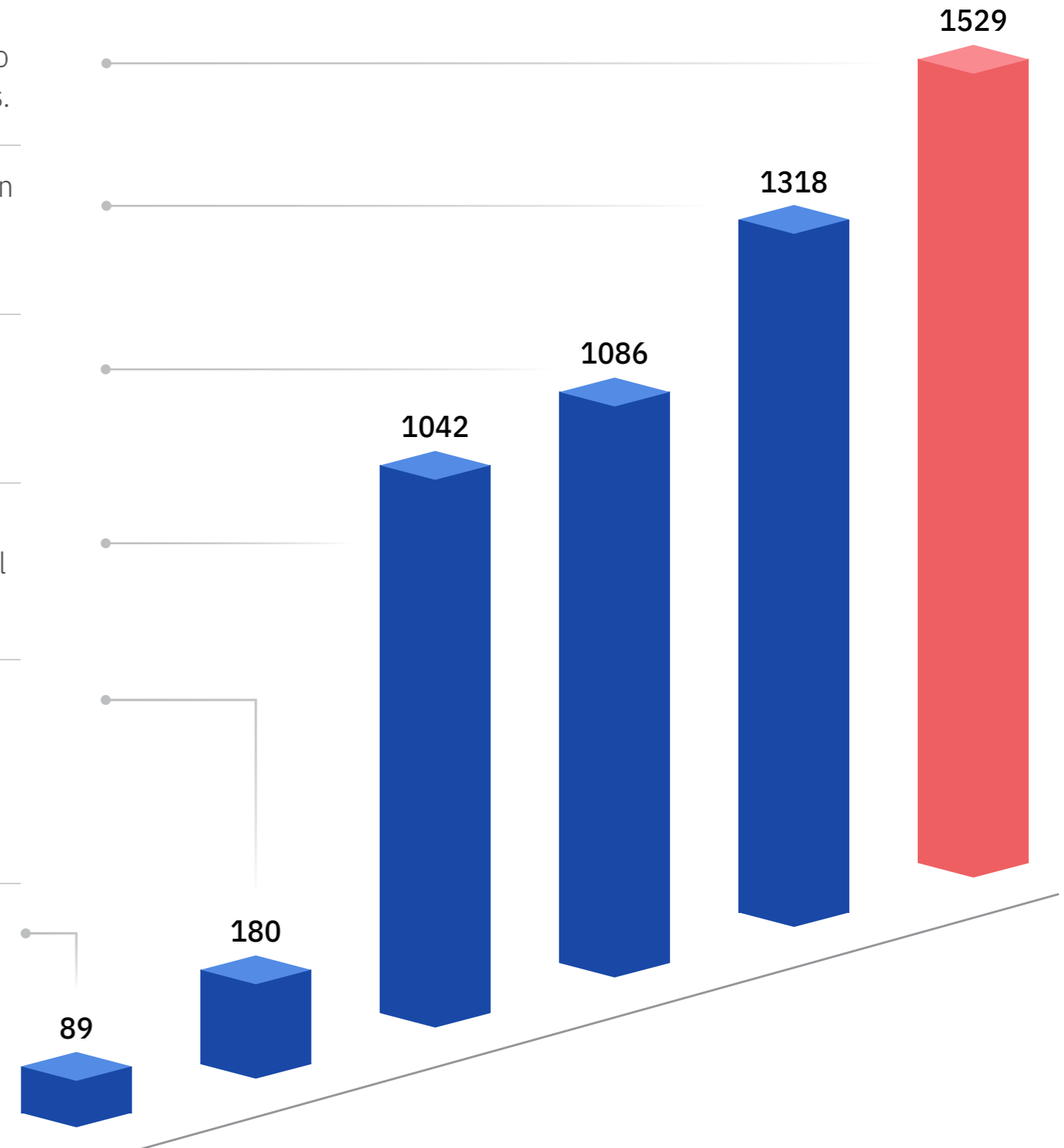
The 17% **increase** in ICT from USD 921 million to USD 1077 million resulted from investments aimed at improving systems, processes, and controls, as well as simplifying business lending and everyday banking offerings.



The 59% **increase** in technology expenses from USD 113 million to USD 180 million was driven by higher costs for technology transformation, increased lending volumes, and changes in the treatment of Software as a Service (SaaS) expenses.



Software amortization **increase** led to a 10% rise in ICT spending from USD 52.2 million in 2021 to USD 58.3 million in 2022, as multiple significant technology assets became operational throughout the year.



-
- **Australian bank benchmarks**
 - **Best practices**



twimbit purpose scores for top 5 banks in Australia



Benchmark score (SV, CX, EX, SS, ESG)

1835i – ANZ’s external innovation and venture capital partner (1/2)



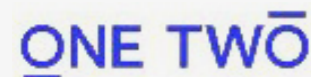
The proposition is a **corporate venture capital arm** of ANZ bank and aims to deliver strategic value for ANZ’s customers through investing, building and partnering with businesses that are transforming financial services.



Homeowners



Leading online home loan origination platform.



Challenger lender for digital home loans.



Digital real estate offer management platform for agents, buyes and sellers.



Business owner



AI-based digital business assistant to provide insights for small business.



All in one virtual business card and expense management platform.



Business loan marketplace.



Innovating financial services



Global financial infrastructure providing FX & payment solutions.



Open banking infrastructure layer for banks and fintech.



Rewards platform enabling consumers to get cash back.



Collaboration platform addressing how organizations safely connect on customer data.



Interactive smart receipts technology.

ANZ unlocks growth through sustainable phygital experiences (2/2)



Breathe branches

ANZ collaborated with Breathe Architecture Studio for a sustainable new branch design.

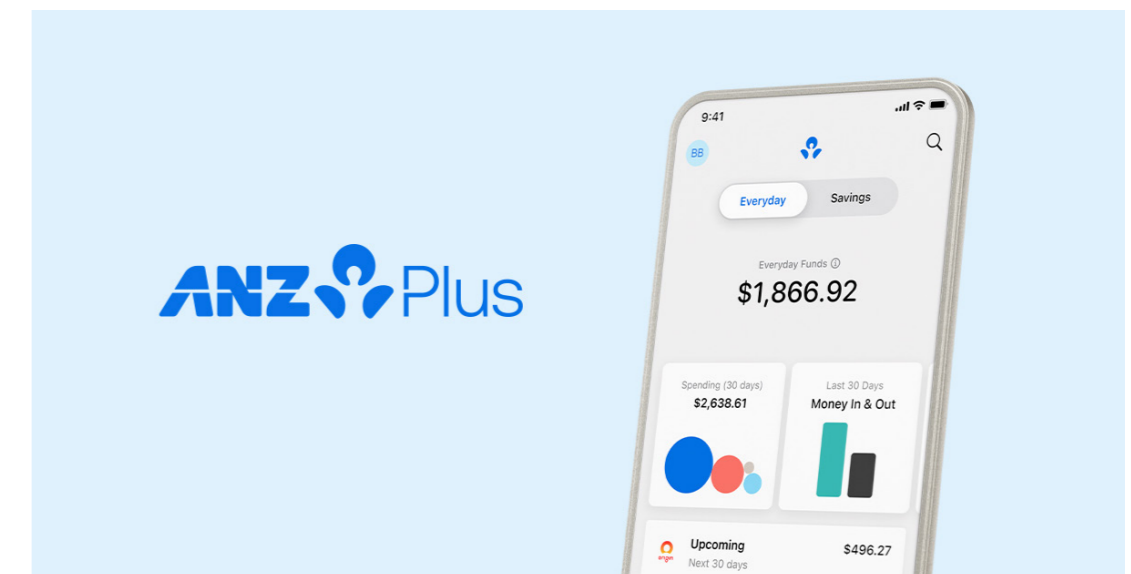
- The design is flexible and cost-effective for remodelling and scaling based on changing needs.
- ANZ partnered with Anixter and 2by2 for a new solution allowing branch technology infrastructure to be disassembled, relocated, and reused.
- ANZ Plus stores and pop-up outlets also use the same sustainable design principles.



ANZ Plus

More than 45% of active ANZ Plus customers have created savings goals, a significant increase compared to less than 5% on the traditional platform.

- Simplify money management and focus on customers' financial well-being with smart tools and a branchless digital proposition.
- Save for multiple goals and eliminate the need for new accounts.

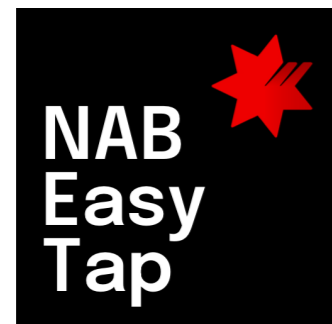


NAB makes payments and banking easier for SMEs



The **digital-first strategy** of NAB is to digitize simple tasks and reduce the need for human intervention. Here, NAB makes the most of its human agents, only utilising them for **relationship-led** customer support.

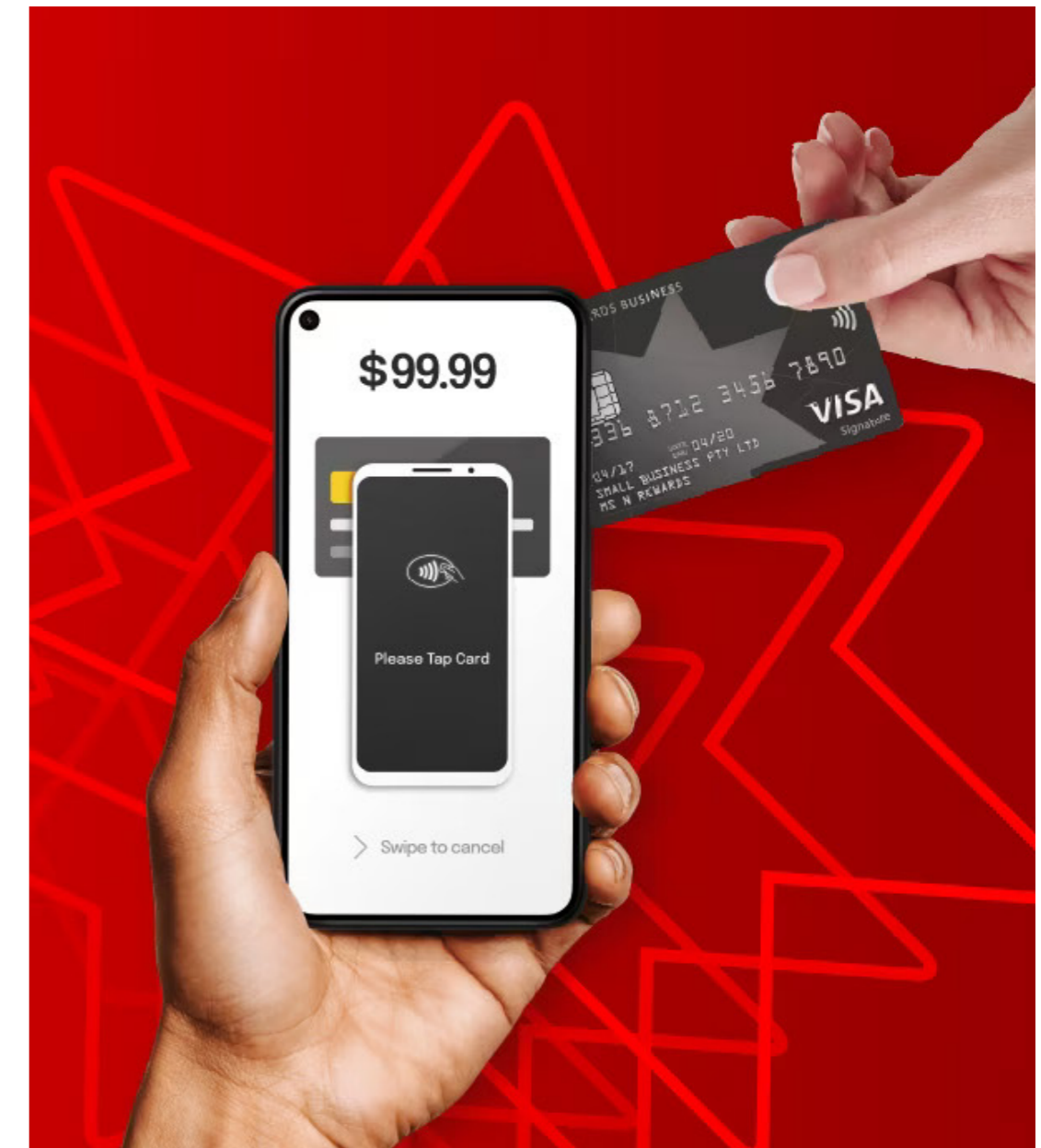
To achieve this objective, the bank has launched the following for its SME business:



NAB Easy Tap is a digital proposition that allows the merchant to turn their Android phone into an EFTPOS reader to receive contactless card payments.

- The service comes with **no set-up fees or terminal fees**
- Allows for same-day settlement for NAB business accounts
- Obtain approval within a few minutes and start accepting payments **two days** after onboarding

Merchants can also access the NAB Hive portal for real-time customer and settlement data, **insights, and analytics** to better manage their business.

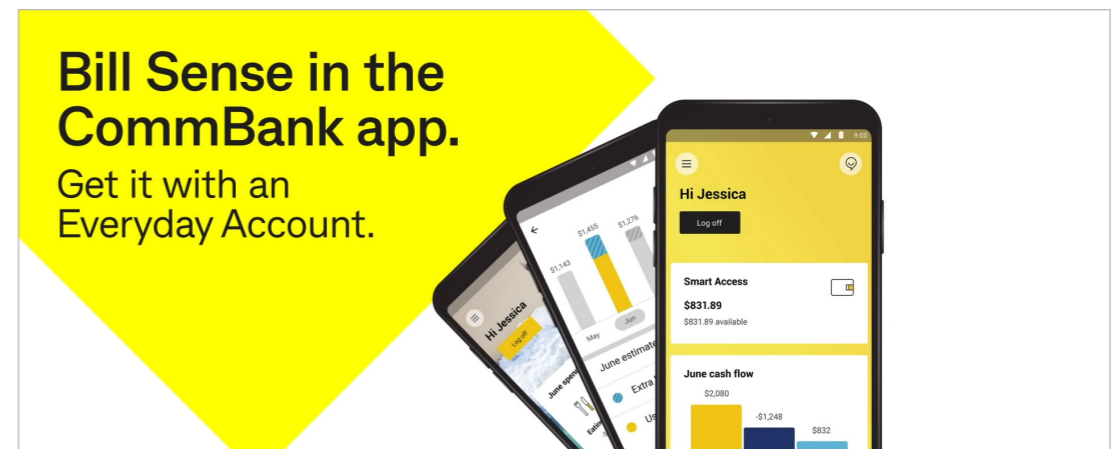


CommBank harnesses the power of AI to build hyper-personalised tools (1/3)



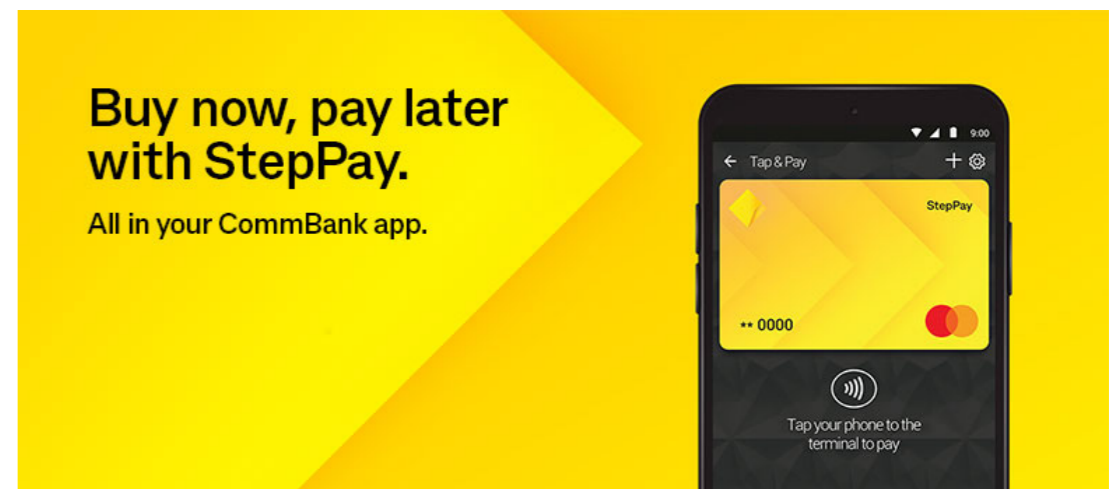
Bill Sense is a feature built within the CommBank mobile app to help customers predict upcoming payments.

- It allows customers to see how much money they will need to cover their bills each month
- Predict bills up to 12 months in advance
- Protect customers from getting overwhelmed with compiling payments
- Predict bills based on customers' **spending behaviour** and past transactions



Step Pay is CBA's **first Buy Now Pay Later (BNPL) service** which is available to more than 4 million customers of the bank.

- The service is accepted anywhere where the bank's cards (Mastercard) are accepted
- The initial approval limit offered is up to **AUD 1000 dollars**
- Repayments can be made over 4 fortnights

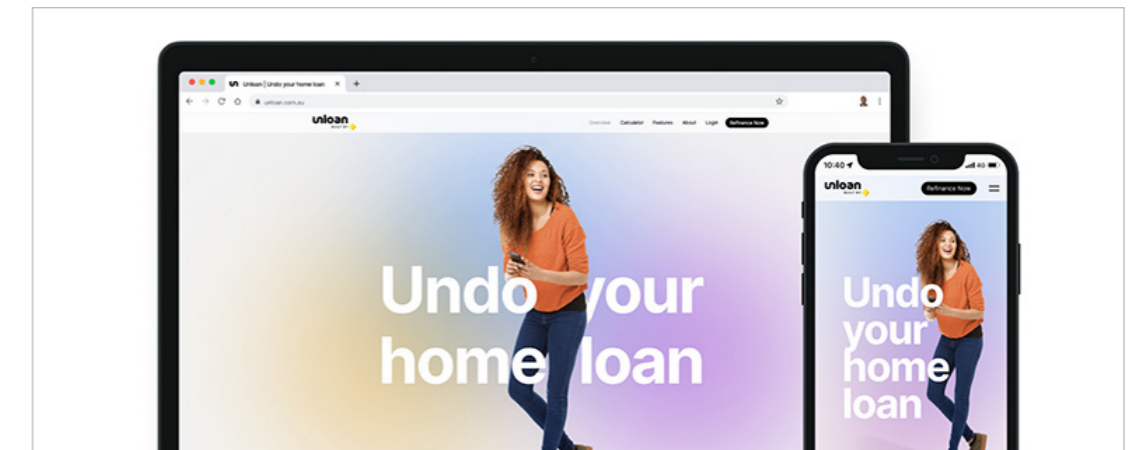


CommBank delivering the best integrated digital experiences (2/3)



Unloan is Australia's mobile-first digital home loan platform.

- Offers simple low-rate and no-fee home loans
- Grow loyalty bonus by 0.01% per annum per year
- Take as little as 10 minutes to apply



CommSec Pocket has facilitated more than AUD 1.3 billion in customer investments.

- Investment starts at AUD 50
- Customers can gradually build their portfolio and reach their financial goals

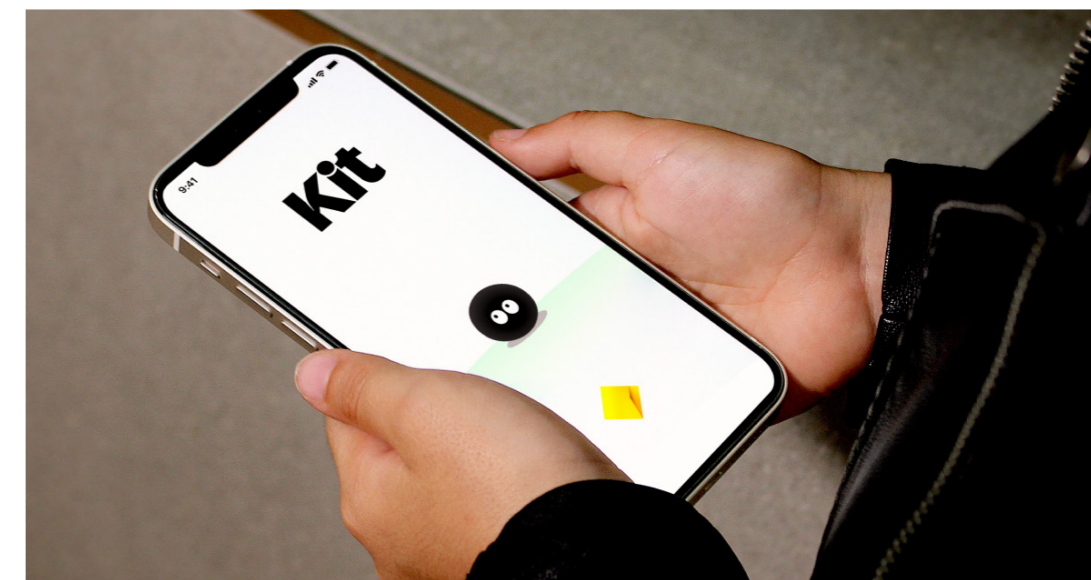


CommBank delivering the best integrated digital experiences (3/3)



CBA Kit is the bank's financial literacy program for kids.

- Includes a virtual account and prepaid card to teach kids about managing money.
- In-app characters provide educational content to promote positive financial habits.



Up – Bendigo’s digital bank



Established in 2022 due to the partnership between Bendigo and Ferocia, a fintech company, Up has a customer base of **over 600,000 users** and holds **more than AUD 1 billion in deposits**. Up offers features, such as Maybuy and 2Up, which cater more towards the millennials and Gen-Z.

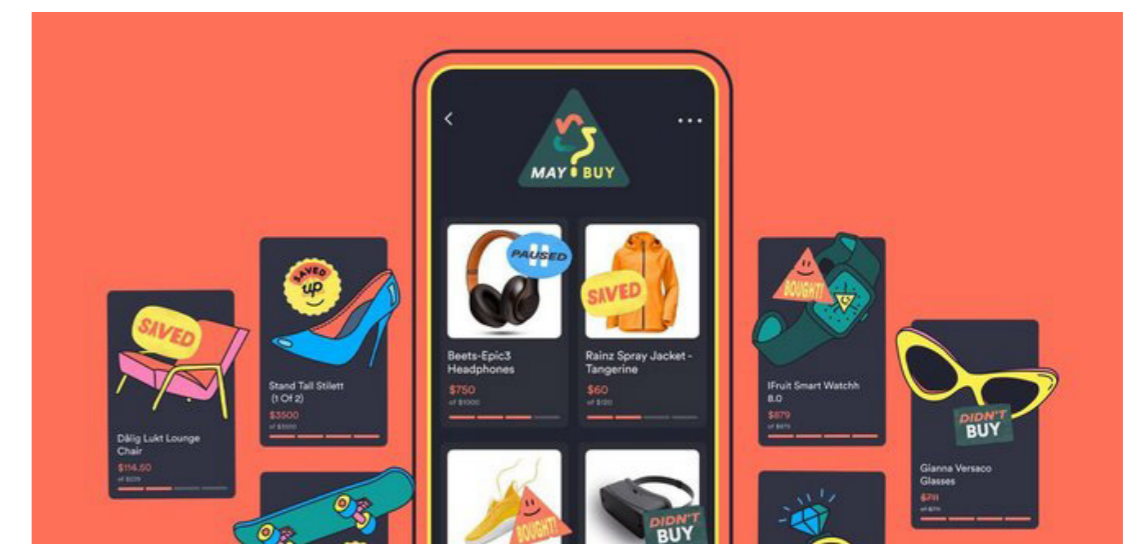
2Up is an initiative which helps two individuals come together to share expenses, track spending and save towards a common financial goal.

- Allow 2 people to share their finance as one, separate from their personal accounts
- Obtain a shared debit card, set up joint savers and get instant digital cards



Maybuy is a form of Save Now, Buy Later (SNBL) model

- Customers can add a product to the bank’s app and start saving by selecting a savings schedule.
- This allows the customers to purchase products they really want with money they already have.
- By the time the money is saved, a customer might not need the product, thereby **eliminating impulsive purchases**.



NAB's integration of 86 400 into ubank



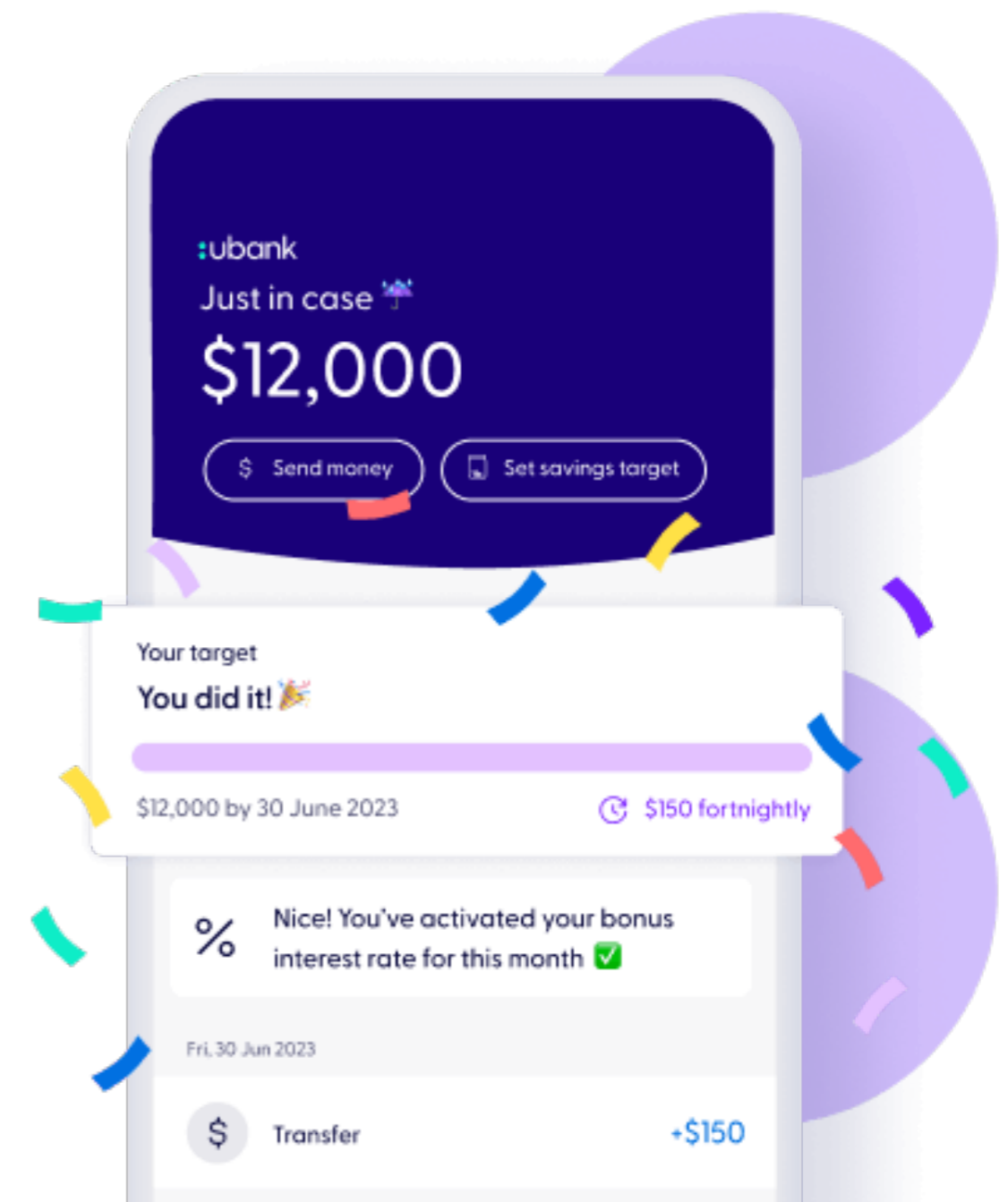
86 400 was established in 2019 and was overtaken by NAB in 2021 and merged into its ubank subsidiary.

High-interest savings account:

- No monthly fees on any 'Save' accounts.
- Customers can open up to **10** Save accounts for different savings goals.
- The bank offers an interest rate of up to **4.75%** made up of the base rate of 0.10% and a bonus interest rate of up to 4.65%
 - Customers need to deposit **AUD 200** every month in the Save account to earn the bonus interest rate.

Shared account:

- Customers can set up a **shared savings or expense account** to track their shared saving goals and expenses.
- Each individual associated with the sharing account gets a **purple debit card** separate from their regular debit card.



Westpac's digital initiatives



Westpac is improving the digital banking experience for its customers by launching the following initiatives:

Money Management – Custom tagging

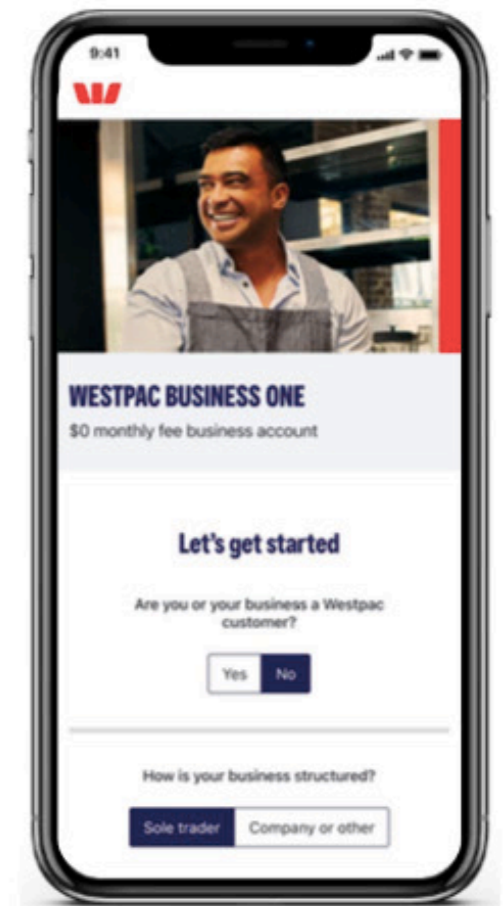
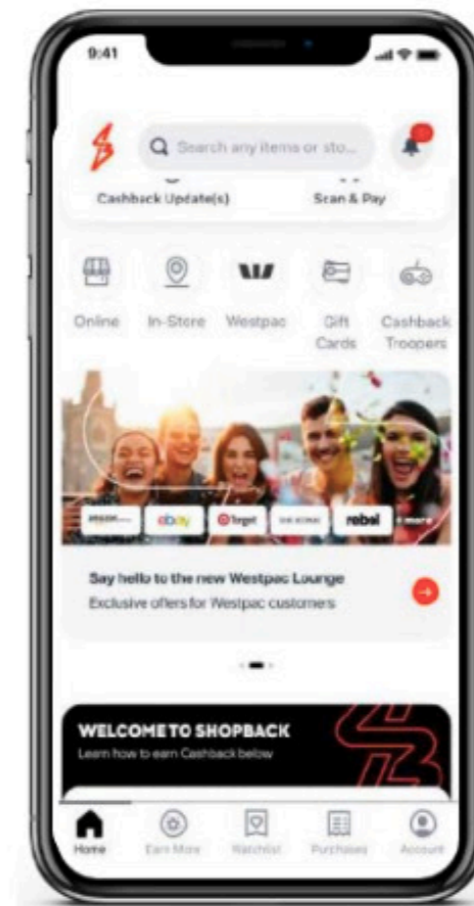
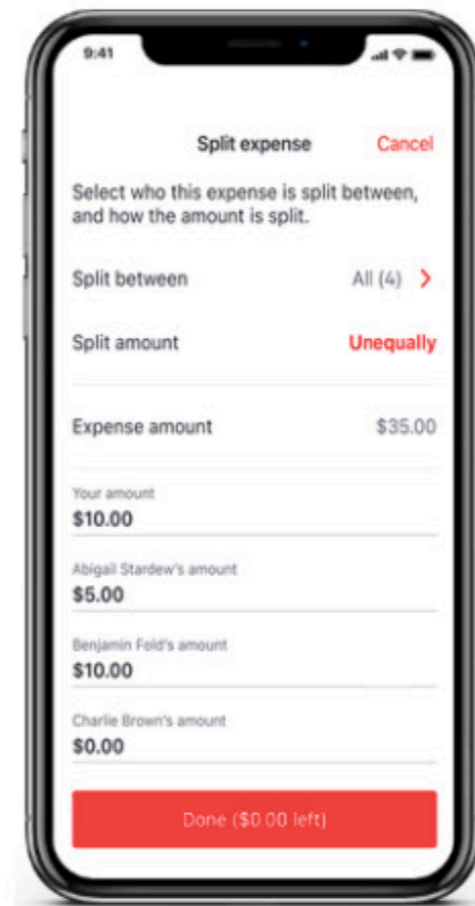
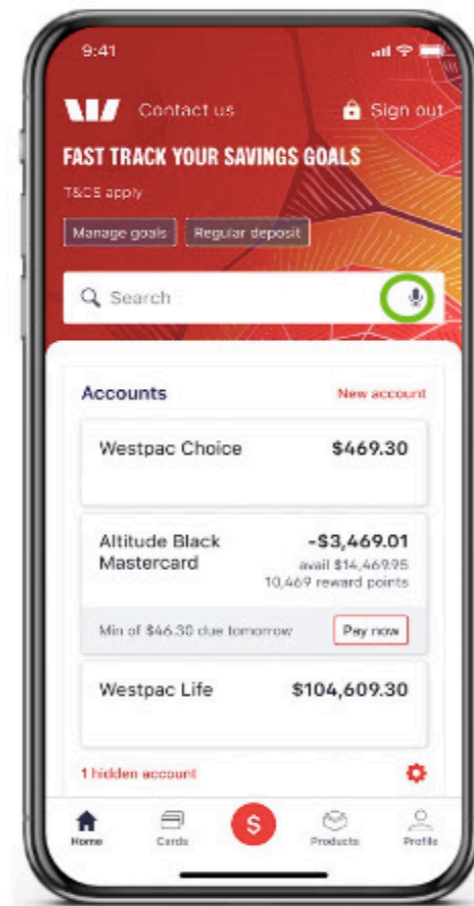
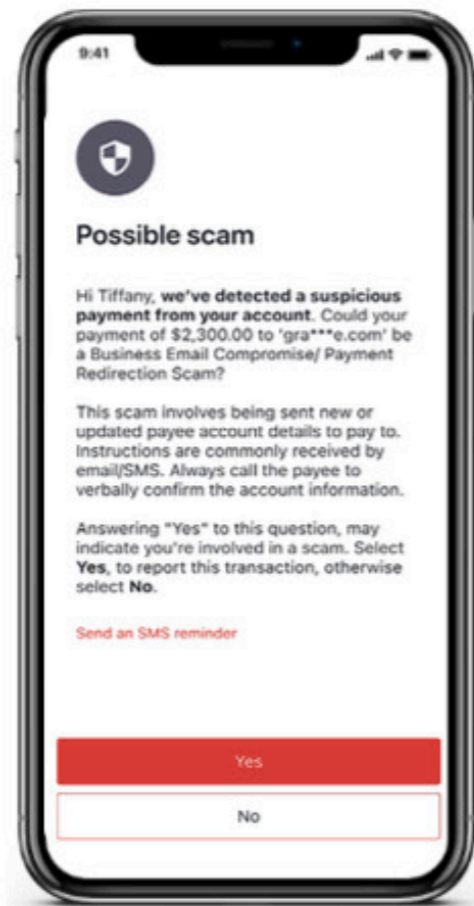
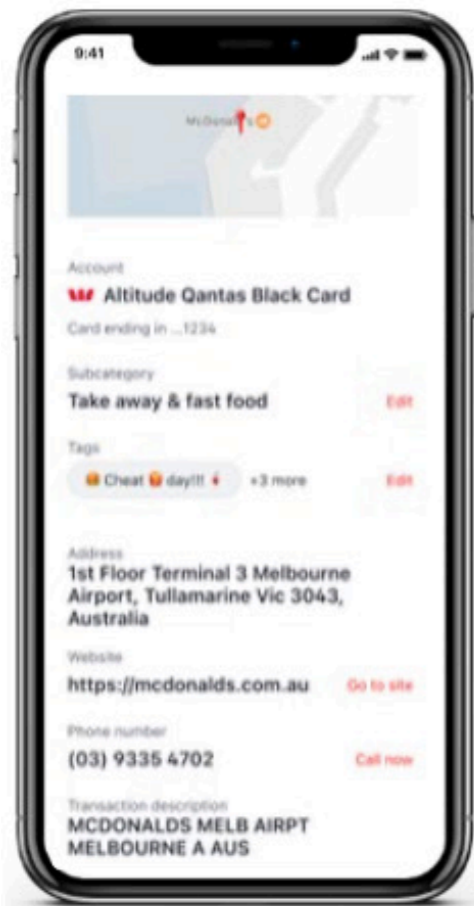
Fraud & Scams – Actionable push notification

Accessibility & Servicing – Voice search, digital service requests

Payments & Transactions – Expense splitter PayTo

Ecosystems – Rewards & offers cashback - ShopBack

Business Offering – Open new business accounts



3 growth opportunities for Australian banks

- Buy Now Pay Later (BNPL)
- Open banking
- Reduce cost to serve



Australia's favourable BNPL market will enable banks to improve their fee-income contribution

BNPL is one of the most popular forms of payment in Australia as well as the APAC region.

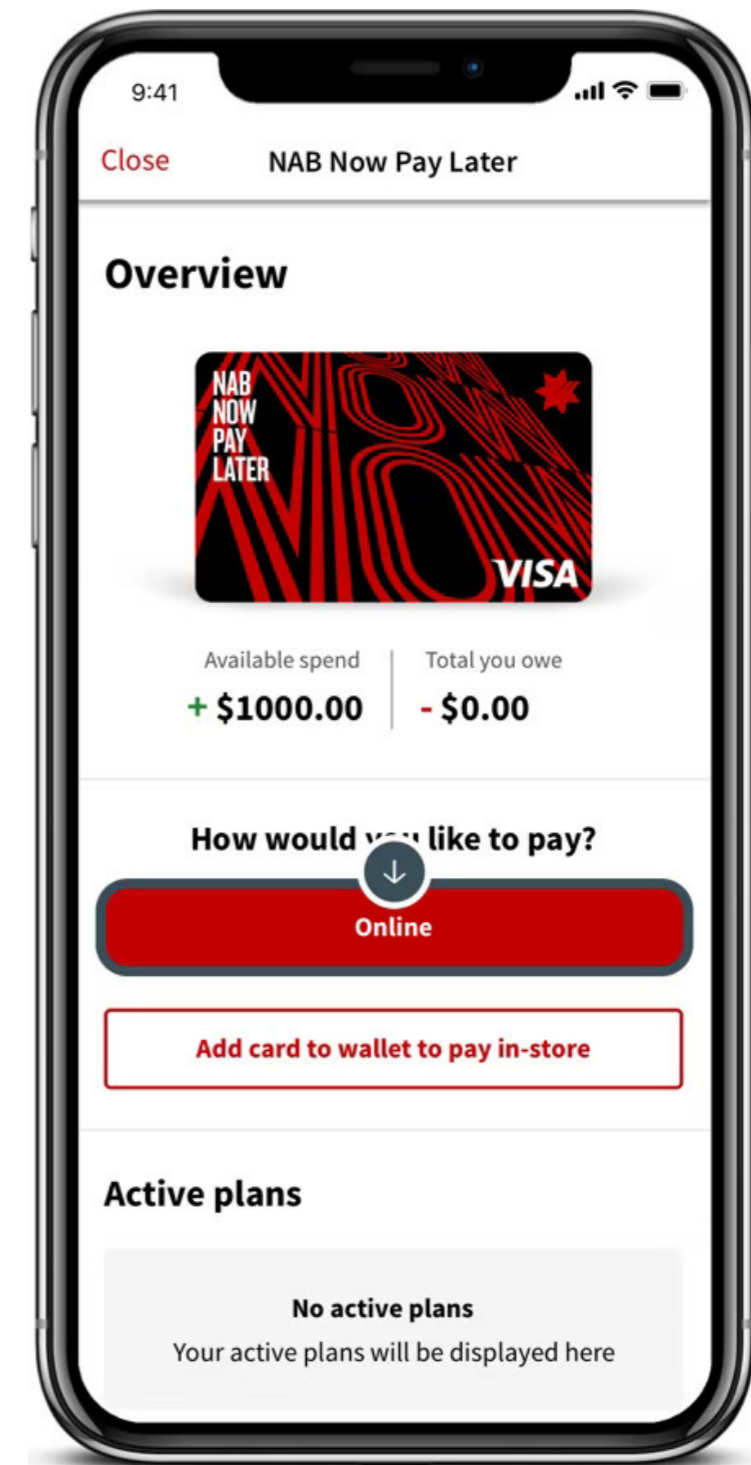
In Australia, BNPL payments expect to grow at an **annual rate of 21%** and reach **USD 14.2 billion** by the end of 2023.

Only NAB and CommBank currently offer a BNPL service for their customers, with Westpac's BNPL service, PartPay on the way.

ANZ, Bendigo and BOQ do not have any BNPL offerings.

A competitive BNPL offering will help Australian Banks:

- **Increase** customer engagement, wallet share and customer loyalty through a more convenient shopping experience.
- **Create additional** revenue streams through transactions, merchant fees and interest on unpaid balances.
- **Attract** new customers to the convenience of BNPL.
- **Access** customer data generated through BNPL usage for better personalised experiences.



*NAB Now Pay Later interface

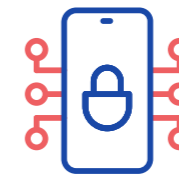
Growing fee-based income with open banking

Open banking is necessary as it can help Australian banks in the following ways:

- **Lower transaction fees** – The reduction in bank-to-bank settlements will help in up to 90% cost savings as there will be fewer intermediaries.
- **Expand service offerings** – Connecting APIs with NBFCs and fintech will allow banks to offer a wider range of products and services.
- **Data analytics** – Open banking can generate an abundance of data for banks to generate insights into customer behavior and preferences, create new products and services and improve risk management.
- **Fee-based income** – Banks can generate fee income by collaborating with third-party service providers and offering them their tools and services.



27 data holder brands by top 6 banks



193 million API usage calls in 2023



All top 6 banks are data holders and data recipients

Optimising profitability and efficiency by reducing cost to serve

There are several ways for Australian banks to improve their cost to serve:

- **Automation** – Banks should leverage digital technologies to automate and streamline their business processes, like implementing Robotic Process Automation (RPA) to automate repetitive tasks
Optimized cloud investment – Replace legacy systems with cloud-first computing to reduce infrastructure costs
- **Streamlined offerings** – Remove redundant and historic products and services from the portfolio
New sources of revenue – Banks should reduce their reliance on interest incomes which are highly volatile with changes in reserve bank interest rates and find new revenue streams from non-interest incomes
- **Expand product portfolio** – Banks should give emphasis on other revenue sources and put less pressure on mortgage lending
- **Leverage open banking APIs** – Generate fee-based income from third-party financial service providers with open banking APIs



Average cost efficiency is 52% compared to the APAC average of 45%



Fee income to revenue is 9% vs. APAC average of 13.8%



NIM for Australian banks is 1.77% compared to the APAC average of 3.08%



We help build and grow
purpose-driven businesses

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