

19 September 2003 Briefing: Customer Service Vision

Title Slide: Which new Bank?

No Speaker's Notes

Slide 1: Disclaimer

The material that follows is a presentation of general background information about the Bank's activities current at the date of the presentation, 19 September 2003. 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.

Slide 2: Speaker's Notes

Speaker's notes for this presentation are attached below each slide.

To access them, you may need to save the slides in PowerPoint and view/print in "notes view."

Slide 3: This presentation will answer three key questions

In August I promised to take you through the expected service improvements, the cost of the investments, expected revenue and the cultural change required to transform the Commonwealth Bank. To do this I will address three key questions:

What is the new service vision?
How will we transform the Bank?
What will be the outcomes?

The name we have given to our service transformation is 'Which new Bank?'

The name combines the heritage embodied in 'Which Bank?' with our intention to change the way we operate.

Our service transformation effort will consist of 20 key work streams at both divisional and group wide levels. We'll cover these later in the presentation.

Slide 4: 1. What is the new service vision?

We have simplified our vision to its core element - 'To excel in customer service' - reflecting the change in our business to focus first and foremost on our customers.

Slide 5: Why the service transformation is necessary

We are approaching an environment that requires us to operate at substantially lower net interest margins.

There are two forces that mean we need to serve our customers differently. These are:

an ageing population with different financial needs, and
an inevitable change in the monetary cycle.

This means that we will need to provide greater value to our customers given the pressures that will be brought about by changes in monetary policy and their need for greater returns to fund retirement.

Consequently, we need to change the Commonwealth Bank into a true service organisation that in turn will lead to competitive superiority.

Slide 6: There are three key themes in our service transformation

In May I presented you with 5 areas of strategic focus.

These have been simplified into three key themes - customers, people, and simple processes.

In implementing "Which New Bank?" we will focus on customer service through engaged people who are supported by simple processes.

If our people are not having a good day at work then it is impossible for the customers they serve to have a good experience with the Bank.

We want our **customers** to experience service that is responsive, convenient and reliable.

They will be served by **engaged people** who are empowered, motivated and skilled to deliver. For whom 'every day is a good day'.

Our people will be supported by **simple processes** that are fast, accurate and effective. Processes that are 'simply better'.

Slide 7: 2. How will we transform the Bank? Customers will receive 'what they need, when they need it'...

With our superior business mix in banking, investment and insurance we are able to bundle services to meet customer needs and provide them with superior value.

From this position you can see that a large number of work streams focus directly on the customer. I'd like to call out a few examples for further explanation:

Service and sales

We are planning to reinvigorate our service and sales model (ASB as a role model).

Client information/single view

We will roll out our customer information system 'Republic' across the group to give a single view of each customer's relationship.

Slide 8: The Bank will be a place where 'every day is a good day' for our people...

Cultural change is required to have engaged people for whom every day is a good day.

This change is the most significant of everything we are doing, and requires changes in the behaviours of every single person in the organisation.

The work streams are outlined on the slide, but more important are the actions that will be undertaken to change behaviour. This has already commenced for example:

- redefining the role of the executive team;
- awards for service; and
- customer time program, ensuring senior executives spend time with our customers.

Slide 9: Our people will be supported by processes that are 'simply better'

Shortly, I'd like to provide you with some examples of the fantastic opportunities we have to simplify our processes.

There are a large number of work streams in this area, but the essence of what we are trying to do is to reduce cycle times through simpler processes. This enables us to meet the needs of our customers more quickly and to provide them with additional value.

We have drawn from the best processes outside the banking industry to benchmark what we do and calculate the size of the potential benefit in our planning.

We will reduce the number of IT systems and the number of access points to these systems.

We are not going to attempt a radical overhaul of our core systems in a short space of time.

The next slide shows the 20 major work streams grouped by the three themes of customer, people and processes.

Slide 10: This is a whole of business approach (Key Workstreams)

The transformation work will be led by one of my direct reports, Adrian Cosenza, who has worked on developing the transformation plan over the past four months and will now focus on the implementation.

All of the executive team are sponsoring at least one of the initiatives and will have an active involvement in implementation. Group Executives will be spending a significant amount of their time on

service transformation related activities. Processes are in place to ensure adequate resourcing arrangements are established.

IBS - Institutional and Business Services
PFS - Premium Financial Services
RBS - Retail Banking Services

Slide 11: We have a workplan for implementation over the next three years

Don't focus too much on the detail here, this slide demonstrates the whole of business approach, involving work across the group and within divisions demonstrating the linkages and timing.

You will notice in this master plan that there are streams to improve service. These workstreams support revenue growth and should provide confidence that we will continue to grow market share.

I will provide a progress update on each of the streams, including more detailed milestones in February, focusing more specifically on:

segment alignment relating to bundling;
service and sales; and
the commissioning of a single view of customer.

Further updates each quarter.

At this point I'd like to take you through some more specific examples of what we think it will deliver...

Slide 12: 3. What will be the outcomes? Customer outcomes

Branch queue times - shortened by further 30% on top of 30% reduction over last 6 months.

Significantly accelerated the modernisation of branches and every branch will have some immediate improvements made.

Home loan applications will be conditionally approved within 4 hours, majority on-the-spot.

New NetBank facility with improved speed and reliability as well as provide new functions including one-step address changes for all NetBank-linked accounts.

Business loans will be funded in half the time (within 5 days).

The time to provide transaction information to business customers will be dramatically reduced to within 2 hours from 4 days.

Slide 13: People outcomes

Our work to simplify the Bank's products and processes, speed up decision-making, reduce bureaucracy and upgrade technology will better equip our people to excel in customer service will have important implications for our people.

Our people will also be supported by increased investment in training. Over \$200m will be spent on training and developing our people during the next three years - double the Bank's normal spend.

As a consequence of process simplification, work redesign and the removal of unnecessary work, the Bank's domestic workforce is expected to reduce by approximately 3,700 between July 2003 and June 2006. Around 25% of this reduction has already happened.

Between now and 2006 we expect that employment levels in frontline customer service will be largely unchanged. Customer contact time will increase as a result of simplified processes and improved technology.

Most of the future job reductions will be in processing, administration and head office related functions.

Job reductions will be spread over the next three years following process changes, work redesign and

the removal of unnecessary work.

Slide 14: Financial impact and outcomes

Over the next three years the financial impact of the transformation will be significant.

We would normally spend around \$200m each year on projects. This spend, totalling \$600m over 3 years, will be redirected, and together with an additional \$620m over three years will fund the transformation activities.

In addition, the investment required to accelerate the branch refurbishment will total \$260m.

The financial prize is large. Subject to current market conditions continuing we will deliver cash EPS growth exceeding 10% CAGR, and this is including the impact of all transformation costs.

We are committed to the achievement of 4-6% pa productivity improvement, and will regain market share across major lines. Naturally this will be in areas where the new business is profitable.

Importantly we expect that the costs of the transformation will not stop us from continuing to increase our dividend each year.

Slide 15: Investments & Benefits

This slide sets out the estimated spend and benefits for each of the next three years.

The \$1.2 billion of total initiatives relate to technology and project expenditure including redundancies totalling \$210m and an additional \$100m for training, making \$200m for training in total.

The benefits are broadly comprised of 50% cost savings and 50% revenue improvement. The benefits in 2006 of \$900 million are recurring and will continue to grow into the future.

Slide 16: Investment and Accounting Treatment

Let's turn to the accounting treatment for 'Which new Bank?'

We will capitalise the \$260m branch refurbishment costs and amortise over ten years.

We have tightened the criteria for the capitalisation of software costs which will result in only \$200m of the total technology spend for the Bank over the three years being capitalised.

Applying this revised policy to software that was capitalised in previous years means we will also expense \$215m in 2004.

This is due to the previous balance including mostly projects under \$1m or projects that don't meet the new criteria.

The remaining program costs will be expensed as incurred with the exception of \$260m which the accounting standards require us to provide for at 31 December this year. This balance will reduce to \$210m at June 2004 and to \$77m at June 2005.

Slide 17: Estimated Financial Impact of Transformation Costs

As I said we expect the costs of the transformation won't stop us from continuing our practice over the last ten years of increasing the dividend each year, subject to market conditions. The costs of the transformation including the impact of expensing previously capitalised software will be added back to the 2004 cash earnings when determining the dividend.

This approach will ensure the total amount of capitalised expenses on our balance sheet remains extremely small.

Slide 18: Productivity Improvements of 4-6% pa CAGR over the next three years

We will measure our cost to income ratios by our major businesses namely banking, funds management and life insurance.

This slide sets out our targets by major businesses. I would like to highlight that the expense component of these ratios includes commissions paid to brokers which should increase in line with volumes of business.

Our target range is a 4-6% pa improvement over the next three years.

Slide 19: Dividends & Capital

As long as there aren't any dramatic changes to current market conditions, we expect dividends per share to be in line with EPS growth, after adding back the transformation costs set out on the previous slides.

We already informed the market that for legal reasons we weren't able to acquire shares over the last few weeks to satisfy the Dividend Reinvestment Plan (DRP). Consistent with our peers, we will continue to issue shares to satisfy the DRP, which subject to the necessary approvals, should enable a structured buy back to go ahead.

It would be very easy to simply buy back the shares we are issuing for DRP on market, however, we expect we can do something better for our investors within the next six months.

Our expectation is that our capital position will be within our target range and will allow us to maintain our current ratings.

Slide 20: What is different?

You may be asking what's different and it's a good question. If it's not substantially different how can you be confident that the results will be there.

This is the most significant change we have undertaken since the Bank privatised in the early 90's.

The needs of customers will direct everything we do.

'Which new Bank?' will touch everything that all of us do in CBA every day.

It goes to the culture of the organisation and addresses root causes of performance.

It leverages our unique position in the market.

In financial terms:

- It encompasses a significant rate of improvement for cost to income in all 3 of our major business lines.

- It accelerates the implementation of the service vision into a three year timeframe.

- It contains a commitment to investing in long term assets, including:

- o more than trebling our branch refurbishment rate;
- o trebling our spend on customer service systems; and
- o skilling and training our people to make continuous improvements.

Slide 21: Customer service through engaged people supported by simple processes

This is not a one off program, it is a fundamental shift in the way we approach our business. By focusing on changes that have a direct line of sight to service improvements we increase customer loyalty, raise retention levels and revenue and deal with efficiency in a way that resists the temptation to cut costs for the sake of it.

I want to reiterate that given the expectations of CBA, its connection to the community, its scope and reach, the value potential in this service transformation is more significant than any of our competitors.

Slide 22: Title Slide

No Speaker's Notes