Question and Answer

Jill Campbell
Group General Manager of Investor Relations

Don't think I'll use the word somber. I don't know one in this room is new to Q&A, so I'll keep it short. Wait for the microphone, announce who you are. We'll start with one question each. Try and resist the urge to break that into 17 parts. And with that, we'll go to Jarrod, please.

Jarrod Martin
Crédit Suisse AG, Research Division

Shayne, interesting that you mentioned you were told that your comments were too somber because the first thing that I wrote down for the briefing was the use of the term long-term came out significantly but with short-term issues, headwinds around any range of things. And so are we staring down the barrel of a tough couple of halves in terms of -- and straight to earnings growth or earnings going backwards? Michelle used the term not linear from here in terms of costs. You're talking about reinvestment. We've got retail revenues going backwards at a rate of knots. And so are you just -- are you effectively bracing us for short-term profit going backwards?

Shayne Cary Elliott
CEO & Executive Director

No. I'm bracing you for the reality that it's tough. But let's put it in perspective. When we're talking about a tough outlook, we're fundamentally talking about the retail outlook here in Australia, right? And you saw that in our half. And we're saying I don't think that toughness, that environment is going to change anytime soon. Now we have got the benefit having -- a, we've got the lowest weighting amongst our peers in terms of our exposure to Australian retail, and what we're really benefiting from now is that the rest of our businesses are doing well. I remember sitting in this room not that long ago when people doubted our ability to generate double-digit returns on institutional. They doubted our ability to get that business on a footing where it's actually generating growth. And we've delivered that, and that has really provided a great deal of balance and diversification in our business.

And that and the strength of our New Zealand business is allowing us to put all of our efforts, including my time and the team -- the ExCo team and to really dealing into what is a difficult environment in Australia. And we're not shying away from that. At some level, I guess what we're saying around the short term is the easier decision for us would be just to go out and book indiscriminate volume and gaining share and book a better revenue. But we think in terms of on a risk-based view, and I don't mean just risk-weighted assets, I mean risk in the broader sense, taking into account regulatory risk, legal risk, all of that nonfinancial risk, we don't think that's the right thing to do. Now our job is to get the balance right. We got to -- like this half, we got to deliver a decent result for shareholders, understand it, while doing the hard work to prepare the bank for the long term.

Michelle Nicole Jablko
Chief Financial Officer

Can I just also pick up, Jarrod, on your point on cost. I've said -- I actually said for the last 2 or 3 years, it won't be linear. It just has been. And what we've always said is we're going to make the right decisions for the business at any point in time. We're not managing to sort of 6-month period, so that's more what that was...

Shayne Cary Elliott
CEO & Executive Director

And just to add to that question, going back to your point about investment. Yes, we do want to invest in the business. We have to. We have to reengineer our processes. And some of that's technology, and some of it's changing processes, some of that's rethinking the role of offshore processing and other things. Yes, that's going to cost a bit of money, no doubt. And we have to retool for the longer term in terms of

-- kind of a data and digital world. But what we think when we look at that challenge, we already spend a lot and invested a lot in our business, it's around $1 billion-plus every year, but what we're getting the benefit now in terms of simplification is we get to spend that where we want it and not kind of spray that money across a whole bunch of nonmaterial businesses. So we think within reason, we're going to be able to -- it's really about targeting the investment rather than significant changes in the total. And the reality is -- sorry, a long answer to one question, but I -- a 17-part answer to the question, I -- but that I think is an -- that's a benefit we're getting that perhaps you didn't really think about but in terms of that ability to focus on a few things. And quite rightly, the focus at the moment is going to be on the Australia retail business.

Jill Campbell
Group General Manager of Investor Relations

I didn't think I'd have to cut the answer, so Andrew.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman. Just a question on the comments you made, Shayne, around the institutional business and the double-digit ROE that you've reported in the half. I think you said 11%. Obviously, that's being done on the back of a positive bad debt charge. And you surely note 27 basis points is what you'd expect over the cycle. Can you maybe just reconcile how you would think about the levers that you do have within the business that can actually continue to improve the preprovision profitability of that business?

Shayne Cary Elliott
CEO & Executive Director

Yes. Look, there's no doubt that -- so the ROE is just shy of 11.5%. There's no doubt that, that was assisted -- not tightly driven by but assisted by our low provisions and probably -- and those provisions were well below what we'd expect. But what you're also seeing in here is top line growth, and you're seeing quality top line growth. It's coming in years that we want. It's customer driven. It's largely -- it's coming really strongly in terms of our transaction banking business. If you look at cash and trade on a combined basis today, they're nudging our global markets business in terms of scale of revenue. And obviously, the returns, particularly in cash, are really attractive in that business.

And so that's -- we still got work to do on it. We still believe we can drive revenue growth from there. There's still work to do on cost. We -- so we haven't given up. I mean the 10 years, of course, it's getting harder, in 6 -- after 6 halves of taking cost out. But there's still momentum there, and there's still work to be done there and actually capital efficiency. And capital efficiency isn't just about customer selection, although that's a big chunk of it, but it's also the way we run that business in terms of branches versus subs, where we have our capital deployed in the business. So we think there's room on all of those fronts to improve. The other thing I would say is when we roll forward into a Basel IV world, one of the big beneficiaries of that is actually institutional. And institutional will get capital relief as a result of a Basel IV world, which will be a reasonably material boost to ROE, all else being equal.

Michelle Nicole Jablko
Chief Financial Officer

The other thing I think worth noting is to the extent the growth is balance sheet driven, the way we approach that is with an economic profit model that uses long-run loss rates. So the way we originate business and even as we look at our balance sheet we've got today and tidy that up, it's through that lens of long-run loss rates.

Jill Campbell
Group General Manager of Investor Relations

Richard? There we go. Thank you.

Richard E. Wiles

Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Shayne you've been cutting costs for 3 years. The operating environment has got worse, as you said, it has. What concerns me is you're losing share in mortgages in Australia. You're losing share in household deposits. I think you're trying to give us a message that the loss of share in mortgages is because of changing your risk profile. But today, you've said negative equity is 13% of customers. I think at the -- is that what you just said?

Shayne Cary Elliott
CEO & Executive Director

No.

Michelle Nicole Jablko
Chief Financial Officer

No, no. I said of the increasing delinquencies, it's 12% of that number not of total costs.

Richard E. Wiles
Morgan Stanley, Research Division

That's pretty sure.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Richard E. Wiles
Morgan Stanley, Research Division

So you're losing share in mortgages, which perhaps is due to a change in your risk appetite and your processes. You're also losing in household deposits, which is the lifeblood of retail banking in Australia. So the question I've got is have you gone too far on the cost? Is it impacting your franchise? Are you actually becoming less competitive in an environment that is tougher and therefore the outlook is going to get worse from here?

Shayne Cary Elliott
CEO & Executive Director

It's a good question. And I'll get Mark to comment on it in a little bit. No, I don't believe that that's what we've done. I think -- so first of all, yes, we've lost share in home loans. Some of that is a result of our deliberate actions to rethink risk and reward for the long term, not just thinking about the loan for booking today but thinking about the kind of book we want to have in this more difficult environment, a book that we want that is focused on owner occupiers, that is more heavily skewed towards P&I.

Now -- so some of that as a result is deliberate, and you can see that in terms of our quite significant loss of share, if you will, in the investor space. We overdid that. Did we overcorrect there? Yes. Okay? So it's not -- these are supertanker businesses, to use a cliché, it's really hard to get that exactly right from our own deliberate actions. So yes, we overshot them. We've said that. We implemented some of that change badly. But secondly, there has been a slowdown, and I think you can see this with the larger banks in general versus the risk because we and I think ANZ are further advanced in adapting to the new world around responsible lending. We were early into dealing into enhanced expense verification. What does that mean? It means that it's just harder for people and longer to get aligned. And in that environment, one of our competitive tools is how quickly can you get a response. And I think the larger banks, and very much ANZ, have moved faster into that world than some of the others. And as a result of that, our proposition is going to be a little bit less attractive than others. And so some of that share is being lost as a result of that. But that's not deliberate, that's an outcome. And Mark, do you want to just talk about the environment and how -- what we're doing because we're doing a lot to try to restore and get that balance back on track.

Mark Hand
Acting Group Executive of Australia

Yes. So I'm Mark Hand for the people who don't know me. What's happened is because this become a much longer lead time for customers to get deals through the system, to get deals approved, that's happened to all banks. So the new arms race is effectively going to be around that speed to assessment. And our focus is to put all efforts into improving that speed to assessment for a customer. So whether it be new systems that we've launched recently that allow us to speed up that process, a much more automation, much more automation of the income and expense verification than we've had previously, verification teams that work with the customers to make sure that all the documents are present at the start of the process, which gets it going through the process a lot quicker that it has. And then also, as Shayne said, it's about being more selective about which segments that we play in. And we overcorrected in the investor. We've now got, I guess, an appetite setting that's back in market. So we expect that outlook to change. Our continued focus on owner occupied, and we have been more aggressive in the P&I space than the interest only, which has revenue implications for us. And I think finally, that sweet spot around a business owner that's also a small business customer that's also a homeowner is an area we felt we have probably underachieved over the years, and we see a really big opportunity for us to grow in that space.

Shayne Cary Elliott
CEO & Executive Director

And then the only thing I would add, you asked about deposits. Deposits is different. Deposits' loss of share is not due to clumsy implementation of your policies or anything like that, that is largely just a tactical decision on our part about cost and what's the reasonable -- what's the right amount to pay and the right way of doing it. There's also a little bit in there because as part of our simplification agenda, we felt we just had way too many deposit options out there, and the cost of supporting all of those was not conducive to good outcomes. And so we've simplified that portfolio. So some of that is the result of it as well.

Jill Campbell
Group General Manager of Investor Relations

Richard, would you mind handing to Mott? Thanks.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. A question on Slide 85, a long way there. And so home loan delinquencies, I know Michelle you mentioned this on the 90 days past due. But if you look at the 30 days past due, it sits at the top right quadrant, you can see the yellow line, it's gone really, really aggressive in the 30 days past due really this calendar year. And I know this is not -- particularly, it always happens in the first quarter. This is much more than the past. Now if you go through some of the issues that you mentioned for the 90 days past due, the slowdown in the book, well, that wouldn't have really mattered in the quarter. And in the...

Michelle Nicole Jablko
Chief Financial Officer

No. It does matter in the quarter actually, maybe not as pronounced, but it does.

Jonathan Mott
UBS Investment Bank, Research Division

Clearly small, when you're talking of that number going from 180 to 225 basis points, it's a very nice move. But also the [IEA] switching has been now going for 2 years, so I wouldn't have thought that the last quarter would have made a huge difference. So with the unemployment rate still at 5%, what's happened in the last quarter? We're seeing such a material increase in the 30 days past due, which I would have thought would flow through in the 90 days past due and into the impairment charge in the second half.

Michelle Nicole Jablko
Chief Financial Officer

So it is flowing. I think the factors are largely the same, and Kevin can sort of jump in as well, but largely the same is what I spoke about on the 90 days past due. I think if you look at switching, certainly the longer -- so people that could switch earlier and manage the cash flows did, so there's -- I think you probably do expect the tale to be a bit different. And when customers do get into stress, it's taking them longer to get out. So I think it's a combination of those factors.

Shayne Cary Elliott
CEO & Executive Director

The only other thing I'd add, Michelle, is that we did have a spike in the first quarter of this -- of 2019. What we've seen if you look at -- and it's not in that chart, if you look at our 1 to 29 days, that's normalized back to what we were pre -- in 2018. So that just doesn't come through because that's 30-plus. But if you look at 1 to 29, that's come back.

Jonathan Mott
UBS Investment Bank, Research Division

So the 30 days plus has continued to season, but the short term has gotten worse. Sorry, short terms improved.

Michelle Nicole Jablko
Chief Financial Officer

The short terms improved.

Shayne Cary Elliott
CEO & Executive Director

Correct.

Jonathan Mott
UBS Investment Bank, Research Division

A deterioration of the people who missed their payment in the first quarter has continued.

Michelle Nicole Jablko
Chief Financial Officer

Correct.

Shayne Cary Elliott
CEO & Executive Director

Yes. And what you're seeing there is self-curing is just taking longer because one of the ways to self-cure is to downsize your house or whatever, and people -- that's going to take longer, so there's more flow through than there was in the past.

Jill Campbell
Group General Manager of Investor Relations

Can you hand to Victor? Thank you.

Victor German
Macquarie Research

Victor German from Macquarie. Appreciate, Michelle, you made those comments around remediation charges, which are very difficult to compare bank-to-bank. But I was just hoping you could provide us a little bit more color in terms of how you think about your remediation just so we can make some additional assessments. Other banks talked about overall revenue that they received from their aligned channel. Are you able to give us those numbers? And also what proportion of effective remediation are you assuming in both salaried and aligned channels?

Michelle Nicole Jablko
Chief Financial Officer

Sure. I mean so salary is -- as you say, Victor, it's very hard to compare. We don't all have the same businesses. The size of the businesses are different. What they do is not exactly the same. And we started at different times as well. So salary planners for us, we dealt with, and it's not in that $700 million provision balance I spoke about because those customers have essentially been remediated already. In terms of -- if you're talking about the aligned dealer groups, again I'm not sure it's relevant to look at total revenue but call it $600 million roughly. And it's very, very hard to compare the process. I can only talk about the process we've gone through. And as you remember, we took a pretty large provision in the second half of last year. We had quite a lot of learning out of the work we've done on the salary planners. And the way we approached it was to say take -- we looked at the aligned dealer groups, and we divided the advisers into 3 cohorts, sort of high risk, medium risk, low risk based on a number of sort of metrics. And each of those groups has a different loss rate. So again, I don't think comparing averages across the business is the right way to do it.

Victor German
Macquarie Research

I'm sorry, the $600 million, that compares to the Westpac's number of $966 million.

Michelle Nicole Jablko
Chief Financial Officer

Yes, roughly.

Victor German
Macquarie Research

Even though -- is it right to say that you have more line advisers?

Michelle Nicole Jablko
Chief Financial Officer

No. I think our business is about 2/3 the size of it.

Jill Campbell
Group General Manager of Investor Relations

We did have more in total, but they're more insurance based. So that's why you see the fees are less on the superannuation side.

Michelle Nicole Jablko
Chief Financial Officer

And that's why -- they're different. We don't all have the same businesses.

Jill Campbell
Group General Manager of Investor Relations

James?

James Ellis
BofA Merrill Lynch, Research Division

James Ellis from Bank of America Merrill Lynch. Just in relation to the proposed New Zealand capital reform. So if you are asked to unreasonably subsidize ambitions in New Zealand, can you just talk a bit more about what are the misguiding actions you can take? You did refer to balance sheet actions because a lot of the statements coming out of New Zealand are quite strong.

Shayne Cary Elliott
CEO & Executive Director

Yes. So I know you all notice, but we're really at a stage here, right, where we haven't really got to the consultation papers being delivered, so there's a long way to go. What we're referring to is really -- look, clearly we have options. We have options about the amount of capital that we put into New Zealand and then how we deploy that capital in New Zealand and to which sectors and what returns we require of it. I mean I think it's as simple as that.

And I'm not suggesting that any that's easy, but what we have seen here is we're going to go through a consultation, and then there's a really long period of time to comply with that. And we feel like 5 years or whatever the number will be at the end will be sufficient for us to rebalance our portfolio as a group and within New Zealand. And all we were referring to is, look, we've shown that we're not shy of taking hard decisions. We will act, and we -- as I mentioned, we actually have a responsibility to act responsibly with our shareholders' capital. And so we will do so. But it's the same old tools we always have. We'll look at our cost base. We think about the capital allocation. We think about how we price that capital, what we ask the business to deliver on it. And we'll do all that appropriately at the right time.

Jill Campbell
Group General Manager of Investor Relations

Andrew, and then to Brian.

Andrew Triggs
JP Morgan Chase & Co, Research Division

Andrew Triggs from JPMorgan. Just a question on costs I think. Shayne, you mentioned an $8 billion target by 2022, I think it was. Just in terms of the starting point, just to be absolutely clear, is it -- the $4.26 billion for the half [ex large amount of loan]?

Shayne Cary Elliott
CEO & Executive Director

Yes.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Andrew Triggs
JP Morgan Chase & Co, Research Division

And excludes divestments and other features.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Michelle Nicole Jablko
Chief Financial Officer

Yes.

Andrew Triggs
JP Morgan Chase & Co, Research Division

Okay. Great. And just sort of the sort of buckets for that going ahead. I mean is IT expense likely to actually decline from here if you include the amortization expense?

Shayne Cary Elliott

CEO & Executive Director

It's a good question. Look, I -- so obviously, it's reasonably bold to go out with a number like that, and there's some risk in doing that, I'm aware of it. Do we have a perfect spreadsheet that explains exactly how we get there and what the 8 -- and where the $8 billion will go? No. But we have done lots of work on why we think that's a reasonable number and why we think we can run the bank for less than $8 billion responsibly and do all the things that we want. My -- what we know is that the composition of that $8 billion will change a lot. It will probably -- and when I say technology, I'm not talking about boxes and wires and DNA but the people we have in technology, and that will increase as a percentage of our business. I think, yes, it will. So the proportion that we spend on technology in the broader sense will go up, we'll have more engineers, more data people, et cetera, et cetera.

What we've got to do in terms of the boxes and wires, if it's an old-fashioned way of thinking about it, is get [verified]. And what we've -- what I mentioned in here is what we're really thinking through with Maile and Gerard and the team is how do -- because of that past we've talked about that we've grown and this mass standardization production line, it was actually really efficient to have a big box strategy of fixed cost and just pump through volume, right?

In this new world of targeted growth, more flexibility, faster change, we need to reengineer a system that's much more flexible, that's much more variable cost than fixed. And that's not going to be simple, but that's exactly the work that we're doing. And it's not just being done by Gerard and the tech team because it's actually being driven by the businesses. It's being driven by Mark and Maile, in particular, about that -- what that Australian business will look like. So branch cost, we've already seen our branch numbers are down 20%. That's in Australia and New Zealand. I think that's been the most aggressive remodeling of a branch network of our peers. We don't have a target for that in sight, but we know that customer preference is changing. And so that cost will change. We know there'll be changes in our contact centers. We know there'll be changes in our processing shops that's going to shift.

Michelle Nicole Jablko
Chief Financial Officer

And I was just going to add on technology, I sort of look at it inside -- the starting point is not right, and it's probably too high, and it needs to be revised as we work through some of the complexity. But then over time proportionately, technology becomes a bigger proportion.

Jill Campbell
Group General Manager of Investor Relations

Would you mind handing to Brian? Thank you.

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Can I just, first of all, make an observation? And then I promise, I will ask a question.

Shayne Cary Elliott
CEO & Executive Director

Sure. It is a nice observation, Brian?

Brian D. Johnson
CLSA Limited, Research Division

Not really. Page 39. Today, you've spoken a lot about economic profit. But I do see that once again you've wriggled up the cost of capital to be pretty miserly- 10%. Not long ago, it was 9%. We have up to 9.5%. It's now gone up to 10%. But you've actually gone back and restated the comps base on the higher figure, which probably generates a positive delta that wouldn't be there if you would use the historic 9.5%. The other observation that I suppose I wanted to make there as well is when we have a look -- and this is the most important, this is the most important of a bank...

Shayne Cary Elliott
CEO & Executive Director

I'm not sure that actually makes any sense, BJ, but anyway, go on.

Brian D. Johnson
CLSA Limited, Research Division

Well, I'm happy to sit down with the both -- with you, but then when we actually have a look at -- on that same note, the whole economic profit construct seems to have changed even apart from the cost of capital. Previously, you used to say economic profit is risk-adjusted profit measure and used to evaluate business performance unit and variable remuneration. The variable remuneration bit has now moved. I'd also note that you're now talking that even at the group level that you allocate the average ordinary equity to determine and that's the number we see, you're saying at the divisional one, you basically allocate the regulatory capital. I suppose my observation would be at least one of your peers manages to actually give us that reconciliation by division. Could I just put in front of you? It would be intriguing as to know why that basically isn't there, why we don't see the divisional numbers because it would save so much time for everyone to really understand what businesses are doing well and what aren't.

Shayne Cary Elliott
CEO & Executive Director

Okay. All right. I don't want you to be wasting your time, Brian, but I will -- will comment this.

Brian D. Johnson
CLSA Limited, Research Division

Okay. Now the question, this morning, I saw a letter that ANZ had sent out to your Agri customers.

Shayne Cary Elliott
CEO & Executive Director

In New Zealand?

Brian D. Johnson
CLSA Limited, Research Division

In New Zealand.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Brian D. Johnson
CLSA Limited, Research Division

Which basically points out that, hey, guys, we've been running a capital model that allows us to have less capital on our Agri book than our peers, and we might have to respond to this. You're pretty clearly telling people that we're going to reprice up. But when I have a look at the housing book in New Zealand, the advanced type, the housing risk weighting is also well below the peers. I just wanted to get some clarity on basically why is it in New Zealand that we can see 2 incidences where your risk weightings are so far below the peers because that is a major contributor to basically this New Zealand capital problem. But how big potentially is this capital imposed on the Agri book?

Michelle Nicole Jablko
Chief Financial Officer

So if I look at our risk weight in New Zealand, those based on models approved by the RBNZ. Not everyone had models approved at the same time. And so I mean -- and it's reflective of the risk in our book. If -- when we talked -- when I've mentioned that NZD 6 billion to NZD 8 billion number, that was inclusive of an increase in risk weights. It's probably 15% of the number.

Jill Campbell
Group General Manager of Investor Relations

Brett, please.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Brett Le Mesurier from Shaw and Partners. So Michelle, how much of the $700 million is actually the provision to the aligned dealer group?

Michelle Nicole Jablko
Chief Financial Officer

It was, from memory, about $140 million.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

And I'll push Mark with a second question.

Mark Hand
Acting Group Executive of Australia

Yes.

Brett Le Mesurier
Shaw and Partners Limited, Research Division

The LVRs on new loans have continued to decline. They've fallen from 70% to I think 68%, 67% over the last couple of years. Do you they're going to continue to decline given that you've tightened your lending standards as you commented in November last year?

Shayne Cary Elliott
CEO & Executive Director

It's a good question actually. I'm not sure Mark -- I'm just looking at Mark here, go on.

Mark Hand
Acting Group Executive of Australia

I don't think it will because I think we've borne the brunt of a lot of the changes and the amount the customer can actually borrow. I don't think that's going to shrink any further. So I think that's probably found a more natural level.

Shayne Cary Elliott
CEO & Executive Director

And the other thing I would -- the only thing I would say, part of that calculation is influenced by what proportion of loans you're running that are top-ups or renovation loans versus first-time buyer, 8% LVR. So some of it's a mix issue. But I think Mark's probably right that it's unlikely to get any better in any material way.

Mark Hand
Acting Group Executive of Australia

And I guess the other thing, we probably found a natural level in how much interest only we write. So they tend to be like -- so the P&I tends to be at a lower LVR because you can borrow less under a P&I scenario. So probably the main pressures that have driven that have eased up.

Jill Campbell
Group General Manager of Investor Relations

I think we have a couple of questions on the phone, if we can go to those, please.

Operator

Your first question comes from Matthew Wilson from Deutsche Bank.

Matthew Wilson
Deutsche Bank AG, Research Division

Matt Wilson, Deutsche Bank. Two questions, being on the phone, if I may. The changes you've made to mortgage underwriting make complete sense, but they confirm that the industry wasn't lending as responsibly as the law demanded for nearly a decade. How do you therefore think about the ramifications of past responsible lending issues? And it's not a new world, the credit act and responsible lending obligations are legislated in 2009. Secondly, you clearly understand the changing surrounds quite well. You're ahead at repositioning the business, and I think your outlook comments are very credible. Are you finding though the right balance between sort of on a pace and quantum basis between taking cost out, which is easy, and investing for a very different future where IT and disruption is clearly more important and the sector frankly is a long way from being match fit in the space?

Shayne Cary Elliott
CEO & Executive Director

I think those are really -- I'll let you have those clearly good questions. In terms of responsible lending, you're quite right. And as the team at ASIC has pointed out, the responsible lending rules haven't changed over that time. And that's true. But what I would suggest is that the interpretation of that law has changed quite significantly. The law actually says that we must take reasonable steps to ensure that a loan is not unsuitable. Now nobody would disagree with that, and that has been the case for the last 10 years. And we would stand up and say that is exactly what we were doing over that period of time.

However, as time has gone on, partly because of Royal Commission, there has been a debate about what is defined by a reasonable step and what exactly does unsuitable mean. So those are good things. And the result of that is that definition of what's responsible today has shifted. So I don't believe that we have any material risk, if you will, around applying today's standards over the past. So I think -- let's remind ourselves that through that entire period, we were regulated by ASIC and had regular reviews and discussions about that. So I take your point. And I do think we're at a really interesting time because I think all players are interpreting that legislation in slightly different ways. We're probably at the conservative end of that. I accept that. And that's part of what has driven some of our responses. And that's what I mean about considering the kind of nonfinancial risks going forward, so I take that point.

I -- in terms of your question on cost, it's a really good point, and it's something that we struggle with. That is not easy. Our reluctance, if you will, to spend too much on transformation in the future has been really driven by a few things: one, is our poor track record of debt in the past; and two, being really -- I think where we've shifted, certainly in the last year, and even though not -- wasn't formally under Maile, but with Maile's input and Gerard's is to move away from this idea that the investment required in technology is not a technology transformation, it's a business transformation. So we can go out and spend a lot of money and re-platform stuff, but we've got to be really clear -- re-platforming for what, for what purpose, to provide what services to which customers. And so we've taken a bit of a step back on that and slowed that down. But the reason we've -- so we're really rethinking that whole business. Which customers do we want? How are we going to compete? What's the basis of that? And therefore, what's the right sort of technology that's appropriate and fit for purpose? But we slowed down on the short term so that we can speed up later.

Michelle Nicole Jablko
Chief Financial Officer

I think also, Shayne, there's a metabolic rate in the organization of what the organization can deal with, and it tends to be roughly $1 billion a year. And at times, we've looked to increase it. But actually, it hasn't -- we haven't because the organization currently has the capacity to do so much at any one time...

Shayne Cary Elliott
CEO & Executive Director

A good thing, and you might say it's a bad thing because maybe we do need to do more. And I agree with you. We need to increase the metabolic rate of the organization. But one of the benefits we're getting is through simplification, that $1 billion, as I said, is going on leasing these things. Now unfortunately, at the moment, a little bit of that is going into the remediation challenge, right? And so the sooner we get that behind us, that's another freeing up of resources of people, money, boxes to actually apply to exactly that transformation that you're referring to.

Jill Campbell
Group General Manager of Investor Relations

We go to the next question please on the phone.

Operator

Your next question comes from Brendan Sproules with Citigroup.

Brendan Sproules
Citigroup Inc, Research Division

Brendan from Citi. Look, I just got a question on the institutional business, obviously, quite a strong result, particularly at the revenue line, as you point out. Could you maybe talk about just the momentum on the balance sheet. I just noticed in the second half that net loans and advances have slowed to 2%, and customer deposits slowed to 0., particularly in the Australian part of that. There's going to be quite a slowing in momentum of lending and deposits. And maybe you can talk about the broader economic climate and how that's affecting the business going forward.

Shayne Cary Elliott
CEO & Executive Director

I'm going to hand to Mark. I'll just say your observations are right. And as I said, our focus here is about discipline. It's about disciplined growth, being really clear what our return hurdles are. And actually, it's a cliché, but the success of the institutional is more driven by the things we say no to than it is by the things we say yes to actually. And so growth on the balance sheet is not a given and neither should it be that there's some sort of trend you can extrapolate and hit a target on. That's not the right way to run that business. But Mark, you might want to talk about conditions.

Mark Hand
Acting Group Executive of Australia

Yes. I think you're spot on with the response here. We'll grow the loan book, particularly when the opportunities are there with the right pricing, and so that might be linear. There'll be opportunities in some halves that are better than others, and it'll be across different geographies. For example, we've seen some growth in the Asian business recently, but a lot of that's around our FIG position there, and that's actually drives up good revenue into Australia, to be quite honest. So you've got to look at this as a nonlinear thing with regards to in particular the risk-weighted assets. On the deposit side, we're again being just cautious around what we want to build there. Our payments cash management business is growing, but we haven't -- and we're bringing a lot of mandates, but a lot of that hasn't flowed through yet into the bottom line because we're still transitioning. So there's a few component parts there that we need to continue to work on in getting customers onboard more quickly. But it's a combination of both of those factors. I think was that -- I think that was covering all the questions.

Shayne Cary Elliott
CEO & Executive Director

Yes.

Jill Campbell
Group General Manager of Investor Relations

So I did say one question each, and we'll -- we will go -- you can call us this afternoon to go through other questions. I think we're done. We have one more on the phone.

Operator

Your next question comes from Azib Khan with Morgans.

Azib Khan
Morgans Financial Limited, Research Division

Shayne, so the percentage of Australian home loans originated through the broker channel has been trending up. There was 57% of flow in the first half. Is this a structural trend that's coming through? And can we expect this uptrend to continue as you focus on absolute cost reduction between now and 2022?

Shayne Cary Elliott
CEO & Executive Director

It's a good question. So there is clearly a structural change happening in the marketplace. More and more Australians are choosing to use the broker channel. They see value in terms of ease but also in terms of price transparency. I don't know -- I can't see that slowing anytime soon. Obviously, there were questions still being asked around the right remuneration model, and that might have an impact. But putting that aside, I think that trend will continue. And there are many markets around the world that have much higher penetration of brokers. Interestingly, we've seen the same trend although much lower numbers happening in New Zealand as well.

I just want to be clear though, we are responding to customer demand, not we are pushing customers to brokers. We would much prefer customers come into our branches or call us up or go online. That's always going to be our preferred channel. So we don't sit around and say, hey, let's manage our cost base or our marketing or whatever it is to push people into channels, into brokers because somehow it's cheaper. That's not how we think about it.

Jill Campbell
Group General Manager of Investor Relations

Okay. I think we're done, everybody, unless you had any last comments, Shayne?

Shayne Cary Elliott
CEO & Executive Director

No.

Jill Campbell
Group General Manager of Investor Relations

Our Investor Relations team, obviously, around all afternoon as are the executive team. Thank you all for coming.

Shayne Cary Elliott
CEO & Executive Director

Thank you.

Michelle Nicole Jablko
Chief Financial Officer
Thank you.