Question and Answer

Ross Brown
Head of Investor Relations

Good morning, everyone. Just for the benefit of those who are on the phone and viewing via webcast, if you could just wait for the microphone, state your name and the organization that you represent. Why don't we go to Jon, first question?

Jonathan Mott
UBS Investment Bank, Research Division

Welcome back, Phil, been a while. Been a lot of strengthening of the balance sheet over the half. We've seen the dividend get cut. You've had the $1.8 billion capital raising and the CPS conversion coming through. But if you look at the upper stats, you're seeing quite a sharp slowdown in lending over the last couple of months, it started to come through. So I wanted to get a bit of a feel. Is that a deliberate strategy that you need to be a bit more cautious on growth given the environment, that credit growth needs to come back a bit, especially versus your major bank peers? And we're well aware of the arbitrage with the nonbanks that they've got at the moment, but is that a deliberate strategy? And also on your targets for capital, you called out getting above the unquestionably strong benchmark, but you need to start building capital for New Zealand given the likely quite substantial capital impasse that's going to come through over the next couple of years.

Philip Wayne Chronican
Group CEO & Director

So first question first. It's not a deliberate strategy to toggle back on lending, but I think it is fair to say that over the -- if you look at the half as a whole obviously we had a very strong performance. In the later months of the half, we did have a decline in new lending occurring. There was a couple of factors, one of course is that we got a bit of a kick from the lower SVR that we had early in the period. And towards the end, both was combination of some service issues which we're addressing, but also our pricing relative to peers, we weren't as competitive. And I'm talking here about the housing market in particular. We weren't as competitive in the last month or so of the reporting period. We are taking action to restore that, and I believe there's some early signs coming through in recent weeks that would indicate that we're getting some -- that momentum back again. So that's not deliberate. We believe that there's still good quality lending to be done. The capital position isn't -- we're strengthening it, there's no doubt about that. And we wanted to take steps that were decisive because we don't want the market to think that we're going to be coming back for drip feeding further capital increases. Hence, the decision to take a significant DRP underwrite in addition to the capital already raised. But also to set the dividend at a level that is more likely on the balance of probabilities to be generating surplus equity rather than leaving us on a shortfall in an organic sense.

It's not explicitly around the RBNZ issues because that's got a long way to play out yet. We're still in the consultation period. And even on their own proposals, there was a phase-in over a number of years. So we're not explicitly building for anything in New Zealand in these numbers. Although you might say that's one of the backdrops that we've got in mind in wanting to have a balance sheet that generates capital as opposed to consumes it. You want to add anything to it, Gary?

Gary A. Lennon
Chief Financial Officer

No.

Ross Brown
Head of Investor Relations

Maybe, Jarrod, for you?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. A question for you, Phil. There's a natural tension between the role of Chair and CEO, and as much as Chair and the Board, they tend to independently review CEO and management strategy and performance. So with that in mind, how long do you feel that staying in the role of CEO and being able to manage that potential conflict down the track and then noting that if NAB goes to an external candidate that's currently in the role, the notice period tends to be at least 12 months?

Philip Wayne Chronican
Group CEO & Director

So I'm acutely conscious of that. And in fact, we have taken a number of steps to preserve independence even within the current role. But it's my intention to keep this particular situation as short as possible. Now I appreciate that there is some uncertainty in terms of any internal or external appointment to the role of CEO, but we are going to manage that and we have a clear protocol in place for making sure that my independence isn't compromised. I won't go into the detail, but it does essentially involve much more autonomy of the management team making decisions. So despite any appearances, I'm meant to be a -- I'm not meant to be a hands-on CEO in that sense. But obviously, we are trying to make sure at the Board level we are sending the direction of -- or sending the right message to our management team about the direction we'd like them to take.

Jarrod Martin
Crédit Suisse AG, Research Division

If it would take a year, 26th of April 2020, would that be a reasonable date to state it?

Philip Wayne Chronican
Group CEO & Director

No, that sounds very long to me.

Ross Brown
Head of Investor Relations

And maybe, Victor?

Victor German
Macquarie Research

Victor German from Macquarie. I was just hoping to ask two questions, one a follow-up from Jon's, and also on risk-weighted assets and capital. In the past, Gary, we've seen couple of benefits from a pretty good risk-weighted asset performance relative to balance sheet growth. We haven't seen that this period and probably to some extent second half '18. Just wanted to get a little bit of sense what exactly are the moving parts and how do you expect, as we go forward, to see that relationship between growth and risk-weighted assets? And on retail banking performance, we have seen a little bit of slowdown post repricing actions. Business presumably gets one on the front book, not necessarily the back book. So I'd be interested to hear kind of what exactly is happening given that we have seen a slowdown in recent months. Are you seeing more churn in your back book? Is that what's driving slowing credit growth or just a bit more color in terms of what's happening there and how you're planning to address that?

Gary A. Lennon
Chief Financial Officer

Want me go to the first one? So on the risk-weighted asset growth. So in essence, Victor, the disciplines that we have spoken previously about are absolutely still in place and those disciplines, particularly in the Corporate and Institutional business, is still in place. Some of the increases this period, there were some oddities, so there was a portion of increase that did relate to model and methodology changes, so that did play through. There was quite a chunk -- if you're just looking for pure FX risk-weighted asset numbers in the ROI, there's quite a chunk of FX in that with New Zealand translating through. So the actual growth does get overstated.

But once you get through that, this is just genuine good-quality business growth that is coming out of the areas where we wanted to grow. So we've grown above system in mortgages, SME growth is strong and pleasing and in CIB, the areas where -- that are higher returning in funds, infrastructure and renewable. So we were positioning ourselves for discipline, but not positioning ourselves to not grow. And as we're seeing that growth, then we do see the risk weight starting to come through. So that's overall somewhat pleasing and also helped, and Phil talked about a backdrop of a number of factors that you think about that goes into decisions made around dividends and capital levels, and this is one of them. But if we're seeing some good growth in SME, good growth coming out of C&I, we don't want to be in a position where we're constraining good quality business.

Victor German
Macquarie Research

So it sounds like optimization is pretty much done in terms of...

Gary A. Lennon
Chief Financial Officer

No, there's more to go. It was -- no, as I mentioned, there was another over $2 billion in risk weights that went out of Corporate and Institutional, and there's more to go in Corporate and Institutional and in Business and Private and in New Zealand. So there's still lots of opportunity in the portfolio to recycle out of those low-returning relationships to help fund the capital growth for others. Phil had a question. What's the first one?

Victor German
Macquarie Research

Retail banking performance.

Philip Wayne Chronican
Group CEO & Director

So retail banking?

Victor German
Macquarie Research

Performance in Retail Bank and how you're planning to address it. What's exactly driving the slowdown?

Philip Wayne Chronican
Group CEO & Director

Well look, I mean if you see the numbers, we -- I think we'll end up being one of the strongest or probably the strongest growing mortgage book of the big 4 banks in the half, but it did tail off towards the end. We are devoting a significant effort to rethinking the retail banking strategy. It's not to radically alter it, but to get some momentum around it, to build the brands, improve performance. A lot of that is going to come -- well, retail banking is always a function of doing a hundred little things well rather than one big thing. And so making sure that we get the level of automation and digitization of delivery at the front end, making sure that we build the brand strength and presence, making sure that we manage the processes so that they become quick and error-free are all elements of the key strategy. That's something that Mike will be leading over the next little while, so not anything radical to enter. As you can see, even getting a few of the little things right in New Zealand has delivered a very strong performance there.

Ross Brown
Head of Investor Relations

We have Andrew Lyons.

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman's. Just on the New Zealand result, it was a highlight for the first half, particularly compared to peers. However, there are signs the New Zealand economy is starting to slow and the market is pricing some rate cuts there. Can you therefore, just given the strength in the first half, can you just perhaps talk a bit more about the conditions as you see them heading into the second half? And just a second question just around the potential remediation from the aligned dealer groups. You've spoken to the $1.3 billion of total revenue take from that. But can you perhaps help us to understand what the payout on this might look like just with reference to what you're seeing on the payout from the salaried to date?

Philip Wayne Chronican
Group CEO & Director

I'm not sure what's about the New Zealand economy. I mean it continues to perform a bit like the Australian economy, it's stable and performing. So it's not stellar growth, but it's far from a problem area. And we're not expecting that environment to change. So migration will be a little bit lower. That's been a big driver of housing markets, so we'd expect house price inflation to remain low.

Housing. The other thing which is, again, uncommon with Australia is the household sector. That's probably straining a little bit under the debt level so therefore, the potential for further growth is limited. But much like NAB in Australia, BNZ in New Zealand is primarily a business bank and there remains good opportunity to grow our business. And we have organized our operations over there to be able to deepen those relationships and build organically.

I can't really help you much on the question about the $1.3 billion of revenue and how much of that's likely to come back because the more reliable a number I have, the more likely I already would have been able to take a provision on it. So we've provided that out there so that you can make your own assessment based on what you have heard from others who may be further advanced in this area than we are, and I have to leave it to you. I don't think it's -- I don't know whether it's reliable to use the internal planners as a proxy for the external planners because obviously, they're very different organizations and I don't know whether that means it's better or worse, but they're different.

Gary A. Lennon
Chief Financial Officer

Phil, I might just add a couple of things on both those topics. So on New Zealand, the environment is softening slightly, but we see really good momentum in that business. So it might not be as good a half as we go into the second half, but we're not seeing any signs of radically slower momentum. So we'd be viewing that, that New Zealand business will continue to perform well into the second half. And on the aligned advisers, yes, that's -- Phil's point is a really important one about we expect as we get into -- so we essentially have 4 dealer groups in our aligned advisers and those 4 dealer groups most likely will have very different characteristics.

So to try to extrapolate from either our internal salary planners, or planners or other dealer groups elsewhere, it's -- you basically -- it's semi-random to do that. But what we tried to do is really -- so that's the population of revenue that hasn't gone -- it's gone through us, but hasn't gone to us. It's gone to those third-party advisers is that circa $1.3 billion. You've got to then as we get data to support this, you get data support -- well, what is the no evidence rate? There will be then -- once you've got that balance, then you can work out, well, what is the interest compensation on that? The default is 6%, but that gives you that, that will also be whatever the actual rate it's deemed for that individual case. And then you've got to work out the loss recovery because it's very clear legally the advisers who have received the revenue are still legally on the hook for any compensation. So there will be a process of loss recovery through this. All of which, at this point in time, we know about the factors, but it's way too early to actually start putting anything that's reasonable and reliable on those factors. But as we do more work, as we go through our sampling, then we will get that data and then we will use that data as the basis for provisioning.

Ross Brown
Head of Investor Relations

Andrew? Maybe -- so Andrew?

Andrew Triggs
JP Morgan Chase & Co, Research Division

Andrew Triggs from JPMorgan. Just a question on the noninterest income outlook outside of trading income. Both the Wealth and Consumer businesses have seen a tough time of it. Just some comments, please, on what you're expecting in terms of residual pricing pressure in the Wealth business. And also the consumer bank noninterest income sits at around $250 million for the half. I mean how much of that is at risk in the current sort of market environment? And how much of it, I guess, relates to sort of home loan fees which are perhaps a little bit more resilient than other aspects of the fee base?

Gary A. Lennon
Chief Financial Officer

So in terms of the wealth fees, for a start. So Geoff, who was part of this repositioning of the businesses, has had a good look at what is the appropriate level of fees to charge to really get business momentum back in that business. We were having net outflows of firm and price for certain of our products was clearly a factor. So the clear -- I think the clear choice was just to rebase that to put it in a competitive position that we can hopefully start growing from again. Now whether that is ongoing, it is a competitive space, but it's one going forward I think Geoff will be in a position to make sure that we really need to stay in market because we've drifted out of market on the fees there. So a big initial change. And then in the future, hopefully, it will just be adjusting to whatever the market situation is.

In terms of consumer, there will be drivers around reducing fees, whether it be regulatory drivers, improved consumer behavior, maybe even lower, system growth on mortgages. All those will act to start putting pressure on our non-interest earning revenue. Inclusive of that is we need -- we really need to get and think totally differently about how we provide full solutions to customers because some of those solutions in the past may have gotten into trouble in terms of where there's any product push. So it's -- there is some challenges and rethink around how we're offering services, which I think will result in modest declines in fees as distinct from really significant.

Ross Brown
Head of Investor Relations

I think we have a couple of questions on the phone. We'll go to the phone, please.

Operator

Your first question comes from Azib Khan from Morgans.

Azib Khan
Morgans Financial Limited, Research Division

A couple of questions from me on asset quality. So in the Corporate and Institutional bank, you've talked about that division being impacted by a small number of large exposures being impaired. Can you please tell us the number of those impairments? Also, was there anything -- was there any common theme across those exposures that were impaired or were they very much independent impairments? And the second question, on asset quality. Gary, you talked about increasing borrower stress being one of the drivers of the uptick in 90-day home loan arrears. But at the same time, we're seeing the arrears trend in the unsecured retail portfolio being pretty flat.

I'd just like to understand why increasing stress isn't coming through that unsecured retail portfolio.

Philip Wayne Chronican
Group CEO & Director

Let me deal with the asset quality and institutional. Firstly, I'll just comment on the word large. Based on my experience, these don't actually count as large. So -- I've seen large. Secondly, by a small number, I think we're talking 2, maybe 3, so it's not a big number. It's very hard to get a common theme out of 2 or 3, but the answer is no. There is no common theme. The only common theme that's even worthy of mentioning is that one of them is in retail trade and one of the previous period charges that we had a year or 2 ago was in retail trade and there's been some others in retail. So I know that is a common theme out there. But even so, we're still talking a relative, in the scheme of things, not a particularly large exposure. That's only one random one. Do you want to handle the difference across the 2?

Gary A. Lennon
Chief Financial Officer

Yes. On the stress points -- and correct, we are seeing that more broadly across the mortgage portfolio as a driver, the uptick in arrears rates as we do see particularly customers into that 5-year period moving from interest-only principal and interests and then filing those higher repayments in the current environment, some having to dip into arrears.

The point that I made briefly around the fact that's what we are also seeing on the mortgage side is an increase in customers that are actually staying in arrears and you could go through a numerous of factors for why that would be the case. Maybe it's more difficult to refinance, maybe property values aren't the right level to encourage people to realize assets, but it's -- or maybe it's our behavior in terms of we have been -- there's more forbearance, but that's certainly, something that's impacting the underlying arrears rates as well. In terms of that flowing into the unsecured, it's quite a different dynamic occurring in the unsecured and that's what's driving that fact. And we do see, in particular, from time to time, these instances of consumers really are becoming more educated around the use of these products, and the use of credit card products and the consumer underlying behavior for the portfolio is improving. Now there's a financial impact of that. But from a impairment level, I think that does help -- have a different sort of situation with those mortgages. And there are customer preferences into -- away from credit products, more into debit cards, et cetera, which is an increasing trend, or using Afterpay, which has an impact in this area as well. So I think there is more choice and you are seeing that that's one of the reasons why you're seeing both those portfolios not grow for quite a significant period of time, but it does help keep the lid on arrears rates.

Philip Wayne Chronican
Group CEO & Director

I'll add a point which is more of an arithmetic point, which is in a seasoned portfolio that's not growing, you're going to have stable delinquency rates. In the last few years, where we've had high growth in home loan portfolios, there's been -- obviously, the new lendings don't get into arrear. New borrowers don't get into arrears, so that tends to artificially depress the arrears rate. As we're now seeing much lower rates of growth come through, part of the uplift in arrears is simply the seasoning of the portfolio.

Ross Brown
Head of Investor Relations

Another question on the phone, I think.

Operator

Your next question comes from Matthew Wilson, Deutsche Bank.

Matthew Wilson
Deutsche Bank AG, Research Division

Matt Wilson, Deutsche Bank. Two questions, if I may. Firstly, given the pending closure of the introducer program, how are you planning to compensating for what has probably been the most productive part of your proprietary channel? And secondly, in the contingent liability note on Page 81, you highlight a number of disputes that have emerged between MLC and Nippon. Can you talk about those more -- add some more color to those, please?

Philip Wayne Chronican
Group CEO & Director

I'll just talk briefly about the introducer program. We've already scaled the introducer program back during the course of last year, so it was a relatively much smaller program that we have been talking about. And we believe that we can continue to grow the business in line with our expectations without reliance on the introducer program. I...

Gary A. Lennon
Chief Financial Officer

Phil, just to help you with that, and a bit of sense of the size, it's like less than 5% of our flow was starting to come through.

Philip Wayne Chronican
Group CEO & Director

Yes, 5% of the flow. So with that sort of number, I don't think it's beyond our ability through tightening up our service levels, improving the reliability and improving the marketing of our own proprietary channels and working with brokers to be able to replace that volume. Do you have any -- Mike has a reasonable view on it?

Unknown Executive

Yes, thanks, Phil. I think there's a couple of points. I think, all of us need to understand post Royal Commission, there is, obviously, things that you've got to do differently and there's a different lens. And the context of the introducer program, for a long period of time, it had been done for various reasons. But ultimately, you get back to the point you want referrals to come on the basis of the service and the differentiation you can provide on an ongoing basis rather than the basis of a fee.

So there is a provision that we have put and a lens we have put on top of that, which is really important. In terms of the onus on us, yes, it is to continue to drive and improve the proprietary channel which has underperformed. And whether it will be the basis of analytics, our bank productivity, the way that we look day by day in terms of retention, I mean, there's been an improvement in retention this half, but that would be a focus. So we're very confident that not only can we overcome that, but we can improve ongoing.

Gary A. Lennon
Chief Financial Officer

So yes. So Matt, on the question and you're right, there are items called out in the contingency notes of disputes with MLC Life and Nippon. But what I can say, and that's relatively expected in a transaction of the notes that we've done, but the relationship we have with MLC Life and Nippon Life is very good. So that relationship continues to be very good. We're in very regular contact with them, and on these items of dispute, it's -- they're being conducted and discussed in a very professional manner, and we're very close to resolution. So we're a long way through those discussions. So it's correct, there has been disputes, but there's no animosity or vigor in some of those conversations.

Ross Brown
Head of Investor Relations

One last phone question.

Operator

Your next question comes from Brendan Sproules, Citi.

Brendan Sproules
Citigroup Inc, Research Division

Brendan Sproules from Citi. I've just got a couple of questions on the transformation of your workforce, particularly in relation to the slide you gave on productivity gains and also the upskilling. So firstly on the productivity, is there some dependencies in the business that has seen that the number of FTEs come out slow in the most current half and is there a risk to the September 2020 timetable 6,000 reduction? And then my second question relates to the upskilling. When the project was initially launched there was upskilling around digital capability. Obviously, you've expanded that into growth and compliance. So has that focus now changed in the sense that you're much more focused on the compliance side rather than getting the same level of digital capability that you had originally anticipated?

Gary A. Lennon
Chief Financial Officer

Yes. So thanks for those questions. In terms of the productivity achieved this half, it was a bit lower than previous halves, but we always said it was going to be project and initiative dependent. So I wouldn't land exactly at 1,000 per half every half all the way through. So there are halves where there will be more productivity delivered and halves where it will be less. We had a little less this period, but if you include the number of exits that have subsequent -- we had a few programs that just drifted over the March half year and were delivered in April. So if you wanted to include what we've done right now, you'd add another 230. So that sort of starts to get up to that level. So there is just a bit of timing in this about when initiatives are delivered. We do have a very fulsome agenda on initiatives currently in flight for the second half. So we expect that it should be a fairly solid outcomes in terms of productivity delivery in the second half, which will compensate for a bit lower in the first half.

In terms of the question on upskilling and including compliance in that, it was always upskilling growth. So that's actually not a change. That was from day one, we've talked about 2,000 upskilling in growth. What I have spoken about previously, we are getting more benefits than what we thought around upskilling, particularly technology and digital capability through the insourcing that we're doing. So we're continuing to insource where we see opportunities and that to bring back in-house functions that were previously done externally and essentially by technology companies that we're bringing in-house. We're doing that at a cost or better basis and off that, we are bringing in higher capable technology and digitalization. So some of the areas where we were hoping or we were targeting to upskill, we're achieving through that insourcing program at lower cost, which is a great net-net result. And they're still within the insourcing numbers to date, there is elements within that of new data capability, et cetera, but compliance in the current environments around -- detail requirements around AML, financial crime, cybersecurity, you can pretty much argue they're new capabilities in the current environment anyway.

Philip Wayne Chronican
Group CEO & Director

First, I'd add to that last answer. We said we're remaining committed to the macro targets of the transformation. But it would be irresponsible of us not to acknowledge that the environment we're operating in has changed, that it's a much tougher environment from a regulatory viewpoint. Community expectations have shifted on us and we're trying to adapt around that so that we can continue to deliver the substance of the transformation while facing the reality that we deal with.

Ross Brown
Head of Investor Relations

Brian?

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Great to see you on the stage, Phil. So many questions, but 2. The first one is if we have a look on Slide 15, last year's result, temporary project staff, you added 1,021. This time, you've added another 252. Presumably when you stop hiring these temporary staff, that's good, but when they leave, that's even better. Does this point to 2021 quite a substantial reduction in the staff numbers, and what does that mean for the 2021 costs versus 2020, which is just that 1 year beyond what you guys have been talking to. And then the second one, Gary, thank you very much today for telling us there's

$180 million of the FLA related to housing. Could you just break out for us what the $614 million relates to by broad sectors? Because the minute you talk about it, you might as well be talking about it properly.

Gary A. Lennon
Chief Financial Officer

Phil, do you want to take the first one?

Philip Wayne Chronican
Group CEO & Director

No, no, you can do it. 2021, I haven't even looked at it. So...

Gary A. Lennon
Chief Financial Officer

So in terms of the project uplift, again, in the half. So your logic, Brian, is right. So to execute on the increased spend in the growth fund and the transformation program, we're having to bring on temporary staff to do that work. In fact this half, the most significant driver of those temporary staff was actually remediation-related staff. So there was 150 that are remediation-related staff. People that have to come on to assist and this is all part of the cost to do provision, to actually help with the remediation. So it's now the temporary is not just transformation-related FTEs, it's now remediation FTEs. The logic's still the same. That will come to an end at some point in time and those FTEs will decrease. Same with the project FTEs, that will come to an end and then that will start to decline once we bring down that level of decline.

Now in terms of outlook for 2020, we're clear of the targets on what we need to deliver in '20, then we have to go to 2021. A few things, when you asked that question last year, a couple of things have changed since that, and part of that's the point. So things will change. Probably the most significant change we hope between now and then, we'll have a new CEO. And at that point in time, that will be -- we're hoping just one -- I don't know what that means. But there, any new CEO we would suspect, given that our view would be and Phil's view as Chair-elect is that the transformation strategy we have is the right one.

The things we're focusing on are making the bank simpler and faster, focusing on the business experience. It's semi-hard to argue with those. But then in terms of what a new CEO would look like and what's the next phase, I think that is going to be an interesting open question because there will be opportunities and there will be a choice to either ratchet back the level of spend, in which case the FTEs decrease and costs will decrease, or depending on the opportunities we have in front of us. Because one of the things we have learned through the transformation and despite the fact that there is -- we have been spending more money on regulatory and compliance and AML activity than we thought we would. As we get into it though, we see that the fundamental opportunities are greater now than when we started. So that tells you there is more cost opportunities down the track. It's just a question of how and when you might choose to get after it.

So some categories that you clear won't be a full wreck, but this will just give some of the more topical ones. So there's $180 million for mortgages, there is $124 million around agri and we took another $60 million broadly this half and $134 million around retail trade. So there are somewhat more and then there's various other ones around mining, CRE, smaller items. That gives you a bit of sense anyway.

Ross Brown
Head of Investor Relations

Richard?

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. I have a couple of questions in relation to housing loans, specifically in relation to the interest rate floor and HEM. So firstly on the interest rate floor, there's been some suggestions since late last year that APRA might reduce the interest rate floor. Have you asked them to do that? Do you think they'll do it? And if they do, do it, do you think it'll have much difference in the housing loan market given the restrictions around debt-to-income levels and also the increased scrutiny of expense verification? So that's the first question. Second one relates to HEM. I think you've disclosed that you rely on HEM 32% of the time.

I'm wondering what relying on HEM actually means. And given the conclusions of the Royal Commission that -- particularly the subsequent update to the regulatory guidance from ASIC, it's pointing to not being able to rely on HEM at all. So can you explain what relying on HEM means and also give an indication of where do you think that 32% goes in the future.

Philip Wayne Chronican
Group CEO & Director

So let me answer the second part of that first. The first step is to verify income and expenditure. And the focus of the regulators has been on the quality of the verification, particularly on expenditure. Relying on HEM means even on the face of enhanced evidencing around expenditure, if it still falls below the HEM benchmark, we use the HEM benchmark, not the proven number. So the caution from the Royal Commission, we have to interpret it properly, was relying on the HEM number in the absence of having done proper investigation of expenditures. So the first test is to actually do proper verification of expenses. If that number still comes out below HEM, we'll use HEM because it's a higher number.

In terms of -- at the moment, that's happening in 32%. The expectation would be as the verification process gets more rigorous, that, that number is likely to come down. But who knows by how much because HEM is the average of a certain proportion of the population. So it could well be that there are 32% of our customer base who are able to verify their expenditure below the HEM benchmark. It's more likely that number has got a 2 in front of it and not a 3 in front of it.

The interest rate floor, I'm not aware of any direct approach to APRA, but I'm not sure for the year?

Gary A. Lennon
Chief Financial Officer

Yes, I don't think we've had a direct...

Philip Wayne Chronican
Group CEO & Director

I don't think we have. Look, the interest rate floor is one of the many buffers that go into serviceability. So -- I mean clearly, a customer whose real expenses are below the HEM and we use HEM, that's a buffer. We already make adjustments to the income verified because we give certain classes of income a haircut. That creates a buffer. The 7.25% floor is another buffer, depending on where the interest rates are at that time. So one of the reasons that the overwhelming majority of home loans are performing in Australia and why people are able to pay them down more rapidly than the scheduled repayment rate is that there are significant buffers already in place. Now that doesn't cover 100% of the portfolio because some customers still get themselves under financial stress, but it's a very small number. So you could argue that the industry as a whole has got these multiple layers of conservatism. That's probably true in the go-forward sense.

We also know there are parts of the portfolio that have been rationed in the past where the income verification may not be as strong as it should have been -- or sorry, the expenditure verification wasn't as strong as it should have been. And we also know that some customers who were interest-only loans, even though we might have evaluated they have the capacity to pay higher amounts on conversion, find the actual process stressful and that's one of the sources of mortgage stress.

Richard E. Wiles
Morgan Stanley, Research Division

So if they reduce this buffer, which as you've said is one of many changes that have occurred or measures that are in place, do you think housing loan growth picks up?

Philip Wayne Chronican

Group CEO & Director

Look, it could, but I'm not sure it's the biggest driver. The biggest driver will be demand from customers. That will determine the amount we can lend to any given customer and you can run the math on it. If you move from 7.25% to 6.5%, now what does that do? But I think the underlying driver will be confidence in the housing market.

Gary A. Lennon
Chief Financial Officer

Richard, just to go back to the HEM comment. There was a question on sort of APRA's view on this. Certainly, our experience with APRA on our progress that we're making to decrease reliance on HEM through greater verification, et cetera, has basically been very supportive and supportive just to continue what you're doing without any acceleration. You need to get to this level by this date, you have to decrease it rapidly. So it's been very measured, and encouraging us to be very measured. So I think they're increasingly aware that they don't want to create any potential issues themselves through a longer-term objective to decrease reliance on HEM.

Richard E. Wiles
Morgan Stanley, Research Division

APRA or...

Gary A. Lennon
Chief Financial Officer

That's always been APRA. That's been discussed at length.

Ross Brown
Head of Investor Relations

Last question. Brett?

Brett Le Mesurier
Shaw and Partners Limited, Research Division

Brett Le Mesurier from Shaw and Partners. Just a quick question. Gary, you showed -- or you told us that the average margin in the wealth business was 54 basis points. What's the average margin on just the new business that you're writing at the moment?

Gary A. Lennon
Chief Financial Officer

I don't have the latest front book data. It's -- it would be lower, and that's why that's part of the repricing is to make sure that we stay in-market. So we'll probably be able to look at the margin by looking at market rates. We're trying to position ourselves to be competitive and be staying to grow fund rather than lose fund. I don't have the exact number now, unless, Geoff, you do, no.

Ross Brown
Head of Investor Relations
All right. Thank you very much for your attendance today.