Question and Answer

Andrew Bowden
Head of Investor Relations

Thanks, Peter. Today is a combined media and analyst presentation. So I'll take some questions from the analysts first before we go to the media. I'll introduce each speaker, and then we'll open up the line for you to speak. [Operator Instructions]

So I might take a question from Andrew Lyons, please.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

Just a question firstly. Can you perhaps talk about the drivers of your 65 per -- sorry, 60% to 65% medium-term payout ratio target in a bit more detail, particularly ROE, risk-weighted asset growth and the DRP? I guess on ROE, you've just delivered a 10% ROE. But that was on a very -- a bad debt contribution. But against that, you do have the cost program to come through. So does it still look like an ROE sort of around 9% to 10%?

And then on the risk-weighted asset growth, with that, the 60% to 65% target on the payout ratio appears to imply close to mid-single-digit growth in RWAs and probably ongoing neutralization to the DRP. Can you maybe just talk about each of those in a bit more detail, please?

Peter Francis King
CEO, MD & Director

Yes. Andrew, when we looked at the payout ratio, we really look at it through a medium-term lens, is the first point. So this half, obviously, with an impairment benefit was the first I've seen in my career from all I can reflect. But I can't think that we're going to repeat that. So I think that point that you made is right. Growth, if I think about the outlook in the slide we just went through, mortgage is at 6%, business at 3% to 4%. That says on our portfolio mix, I should be thinking about 4% to 5% loan growth. And so that's really the thinking that's gone into that medium-term payout ratio return, obviously, a little bit higher this year. But as you said, we've got things coming through. And so that's how we thought about the 60% to 65%. Of course, if growth is a bit lower, then the sustainable payout ratio would be higher.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

And Peter, you've neutralized the DRP this half. Would you expect that to be an ongoing feature in the medium term?

Peter Francis King
CEO, MD & Director

Generally, yes. I think we'd be thinking about the DRP as a top-up mechanism is how we think about it as opposed to something that we'd rely on.

Andrew Lyons
Goldman Sachs Group, Inc., Research Division

And just a second question around -- you spoke to the surplus capital that you have in the business that you're wanting to retain, that until -- to see what the final capital rules look like. Can you perhaps provide any sort of an update on how you think the new credit risk-weighted asset rules will impact your capital position?

Peter Francis King
CEO, MD & Director

Well, I think the challenge for me at the moment is it's unclear because we're still in negotiation with APRA. But I think the -- it's obvious. For us, it's the mortgage portfolio. And interest only, it was a particular focus. So what we've really done over the last few years is shrink that portfolio. So it was at 50% some years ago. And as Michael said, it's now at 18% and probably going lower given the flow. So we've been influencing the mix of the book, has been the big thing for us. I would like to think that we'll get some clarity this year on the capital rules.

Andrew Bowden
Head of Investor Relations

We'll take a question from Jarrod Martin, please.

Jarrod Martin
Crédit Suisse AG, Research Division

In terms of NIM expectations, in the last couple of periods, you have highlighted an expectation that margins will go down. And then margins have actually performed to the upside. And in this presentation, while you highlighted low rates, et cetera, there is still 40% of your deposit book that you said was above the 25 basis points. So just to the extent to which there is more deposit repricing and switching from different types of products that may actually counter some of the headwinds that you naturally have highlighted? And I have another question as well.

Peter Francis King
CEO, MD & Director

Yes. I might lead off, Jarrod. So Jarrod, I think one of the things about this result and probably the last couple is I do think we've managed margins well, as you said, and we probably have delivered a better performance than what our outlook look like. And it's not without chance that we can do that. But I think as we usually do, we highlight that at some point, low interest rates will bite.

But Michael, why don't you just...

Michael Rowland
Chief Financial Officer

Yes. As Peter said, we are pleased with the result on margins for the half. But as we indicated, while there is some room to move on deposits, we think that's limited. It won't have the same benefit in the second half that it did have in the first half. And remembering the pressure on the front book/back book and on asset competition, it still reigns in the market. So we see that as quite a headwind coming into the second half.

Jarrod Martin
Crédit Suisse AG, Research Division

Okay. And then just secondly, on the New Zealand review, and I think you've got a slide in the pack, you talk about demerger. Is there any other options that potentially are on the table such -- capital markets options such as an IPO similar to what you did with BTIM years back or a sale? Or is it just a demerger that you're looking at?

Peter Francis King
CEO, MD & Director

Well, Jarrod, we're looking at what the best way to own New Zealand is. And the reason that's on the table is just the changing nature of banking globally. At this point, we're focused on a demerger. But if other options come up through the review, which is moving along now, but we haven't reached a decision, we'd consider them. But we can't see other options at the moment.

Jarrod Martin
Crédit Suisse AG, Research Division

Expected time frame on a decision?

Peter Francis King
CEO, MD & Director

This half.

Andrew Bowden
Head of Investor Relations

I'll take a question from Richard Wiles, please.

Richard E. Wiles
Morgan Stanley, Research Division

I've got a couple of questions on the mortgages. You mentioned that you think you'll grow in line with major bank system. NAB and ANZ are both growing below system at the moment. So I'm wondering exactly what that means.

Could you also provide an update on your mortgage approval times for the Westpac brand? Could you comment on whether you think investor lending will continue to shrink? And broadly, can you comment on why you're confident you'll grow in line with system in the second half?

Peter Francis King
CEO, MD & Director

So there's a few in there, and I'll give it a go. And if I miss one, just pick me up, Richard. But first thing on mortgages is I think our line of business approach is really working. We're getting end-to-end management, and we're starting to see it through. And in fact, on approval times, if I look at the most used sort of external source, the Westpac brand was -- for third-party origination, we were pretty much in line with all the majors. So if you go back 6 months ago, we were behind.

And then in the first-party channel, the way we think about that is actually, there's 2 real customer needs. Those who need a very quick turnaround normally because they're a simple line, and we want to do those within 2 days. And I think it was a bit over 10% that fell under that category. And then for the other ones, they tend to be a little bit more complex. Given we're a full-service bank, the averages actually hide some of the issues. So we look at it through both those lenses in first party.

And as Michael said, come the end of the year, the Customer Service Hub will be rolled out across first-party, third-party, Westpac and St. George brands. So that gives us a process, all the way from digital application, decisioning and following on. So there's a lot going in there, and that's why we recognize we need to do better on service. But we're confident that we can.

On the investor market, I think that market has sort of fallen back. It's definitely a priority for us in the second half. We can see some more activity in that market, and we'll face into that. Was there another one?

Richard E. Wiles
Morgan Stanley, Research Division

The other one, Peter, was around the growth in line with the major bank system. I mean, in the last 3 months, ANZ has grown at 1%, NAB has grown at 3%. So are you benchmarking yourself against 2 other players who are growing pretty comfortably below system at the moment? Or are you hoping to be in line with that sort of 6.5% run rate that you're talking -- that your economists are talking about?

Peter Francis King
CEO, MD & Director

Yes. Well, it's more about -- we said last half that we would deliver major bank system, and we did that in the last couple of months of this half. There's a chance it'll exceed that. It's -- because as you say, it's a dynamic market. Not everyone is at the same point. But in the end, we will look to grow at financial system, would be what we aspire to.

Andrew Bowden
Head of Investor Relations

Okay. We'll take a question from Victor German, please.

Victor German
Macquarie Research

I had 2 questions as well, if possible. The first one, on deposits, if I could just follow up on some of the previous discussion. If I look on your Slide 17, TD portfolio cost over benchmark is still just sitting at around that 50 basis point level. When we look at the market rates, I mean, it looks like the cost of current TD is at, we can at least observe, is closer to 0. That suggested there's still quite a lot of upside or perhaps there's other deposits in your book that are -- they are not repricing. So just be interested to hear kind of how you're reconciling your comments with margins with respect to this chart, if possible.

Peter Francis King
CEO, MD & Director

I'll just...

Victor German
Macquarie Research

And the second question -- okay. I'll ask my afterwards.

Peter Francis King
CEO, MD & Director

Just -- yes, I understand the question on where pricing is going. But of course, we can't comment on future pricing intention. So just before I hand that to Michael, I'll do that usual caveat about can't comment on future pricing.

Michael Rowland
Chief Financial Officer

Yes. So just as I indicated previously, our ability to reprice deposits is more limited in the second half. We will continue to be competitive, but we're conscious also that customers have a need for interest on their deposits. So it's a trade-off that we have to make between managing the margin and providing a good customer proposition.

So what we're just highlighting is that the size of the benefit in the first half is unlikely to be matched in the second half. We will continue to manage it as effectively as we can, as Peter indicated. But that's the message we really want to get across.

Victor German
Macquarie Research

No. That's helpful. And second question, just on costs. Obviously, very aggressive targets, and I'd just be interested in just a couple of clarifications. First one is on investment spend. You've provided a number there. Obviously, every bank is reporting slightly different base. I'd just be interested to hear kind of how you're thinking about your investment spend relative to peers. Peers are sort of saying that they're targeting kind of $1.5 billion per year. Sort of was your target in that sort of realm?

And also, I think you've mentioned, Michael, that it was too early to take kind of restructure -- or announce restructuring charges. I mean, does that sort of suggest that restructuring charges are still coming? And kind of what sort of size do you think that might come?

Peter Francis King
CEO, MD & Director

Victor, on the investment spend, I think you're exactly right. Everyone does count it differently. So that's why when we spoke about it, we spoke about the trend at Westpac is the way I think about it. So really, we said we're going to hold around that $1.3 billion. But as the company is smaller, effectively, it's an increased investment in -- particularly in the outer years. So I'd suggest that's the best way to look at it. That's how we're thinking about it and look at the trend in the investment for Westpac as opposed to peers.

Michael Rowland
Chief Financial Officer

On the restructuring...

Victor German
Macquarie Research

Peter, I was just going to say, in the past, if I look at the last 3, 4 years, you've averaged almost kind of $1.5 billion, $1.4 billion, $1.5 billion. And I'm assuming your target is for the next 3 years. So that suggests to me that investment spend is declining, not going up. Am I getting it wrong?

Peter Francis King
CEO, MD & Director

No. We've had a -- well, there's been increased fixed investment more recently. Actually, more of that's actually in OpEx at the moment. That's why I think that -- have a look at the total picture of the cost base and the investment is what we're saying. And we've had more of our fix, which is you could -- other banks might describe as project actually in our OpEx.

Did you want to do...

Michael Rowland
Chief Financial Officer

Yes. So just on that, I'd say the way to think about it is that we will maintain the level of investment spend in the next 3 years that we've had in the past. And as you point out, banks account for different ways. That's how we're looking at it. So that's the first point.

The second point on the restructuring provision, as we indicated and you've seen in the pack, the cost reset will be delivered through 3 core areas, the first one, obviously, being the divestment of the businesses in the specialist business division. And that will be sales, and that will take out about $750 million of our cost base. We don't need a restructuring charge for that as such. So that's the first point.

Second point, the streamline and digitization work that is underway. Again, that's improving the way we provide service and product today. That of itself won't need a restructuring provision, but the smaller organization that we're seeking to achieve may need a restructuring provision going forward. But it's too early to say that because what we will do, as Peter indicated, attrition will help deliver some of that. And also, a point that we make is that there are -- we have a significant number of third parties, consults, contractors, et cetera, supporting us through the Fix agenda, which when we get through that, we won't need those -- that support going forward. So that of itself won't need a restructuring charge. So we're not saying we won't need one, but we don't see at this point that it needs to be significant.

Andrew Bowden
Head of Investor Relations

I'll take a question from Brian Johnson, please.

Brian D. Johnson
Jefferies LLC, Research Division

Congratulations on the results and share price reaction. Two questions, if I may. Just on the timing of future capital management. We know that we kind of expect the new [models] to apply from the beginning of the 2023 year. I am intrigued here with you saying you're negotiating it basically with APRA. Can we get a little bit more details on the time line on that? And then I have a second question.

Peter Francis King
CEO, MD & Director

Well, the subject -- the time line is actually in APRA's hands, Brian. So I don't know if I used negotiation, but it was probably the wrong word, if I did. We're waiting for its -- the usual process of they put out a proposal, we consult, provide feedback and then we wait for the final version. So it's in APRA's hands. The timing, I can't be clearer than that.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. And Peter, just on Slide 24, you talk about housing risk weight floor of 23.8%. What's that?

Peter Francis King
CEO, MD & Director

The September ratio, it's held flat at the September ratio.

Brian D. Johnson
Jefferies LLC, Research Division

And what is housing floor there? Because you guys consistently have had declining housing risk weighting, so...

Peter Francis King
CEO, MD & Director

If we had let the modeled outcome come through this half, Brian, the RWA sort of percentage would have been much lower than that, probably about -- I think it was 23.2%, correct me if I'm wrong.

Brian D. Johnson
Jefferies LLC, Research Division

So this is a voluntary thing that Westpac has applied.

Peter Francis King
CEO, MD & Director

This is a voluntary thing we have applied.

Brian D. Johnson
Jefferies LLC, Research Division

Not at the direction of APRA?

Peter Francis King
CEO, MD & Director

No.

Michael Rowland
Chief Financial Officer

No.

Brian D. Johnson
Jefferies LLC, Research Division

Okay. Just a second one, if I may. The Net Promoter Scores on Slide 39 looks pretty bad. And we do know that historically, banks that restructure get costs out. But it can't -- it's just disruptive to business. Can you just run us through what's going on there, please? And what is the risk on the revenue with that?

Peter Francis King
CEO, MD & Director

Yes. Two things. So we -- it's something that I look at the team -- with the team every month. Two things: We've broken out the brands, so Westpac and St. George, and that's the way I'm running the company internally. So we stare into what's going on by brand, not averages. And we're really saying that service is hurting us, particularly in the Westpac brand in mortgages. So that's one that's impacting the NPS and one that we're very focused on. Some of the historical issues that we have is -- are still in the NPS results, so the AUSTRAC and whatnot. But generally, I'd just say service is where it's at, and we're after it.

Brian D. Johnson
Jefferies LLC, Research Division

But that is a...

Andrew Bowden
Head of Investor Relations

Okay. I'll take a question from Brendan Sproules, please.

Brendan Sproules
Citigroup Inc., Research Division

I just have a couple of questions on the cost-out program. Your risk and compliance spend has obviously increased significantly over the last 2 or 3 years. You seem to be sort of run rating at about $2 billion a year. So in terms of the $8 billion cost base target at the end of '24, what sort of reduction are you expecting in that risk of compliance cost?

And I have a second question just on your digitize and streamline initiative. You talked about branch transactions hopefully being 40% lower. Would that imply that your physical locations would also be 40% lower by the end of '24?

Peter Francis King
CEO, MD & Director

So let me -- on the branches, that's what we're seeing customers doing in branches historically and what we expect going forward. On the branch network, we think there's opportunity in the metro areas, in particular. And metro sites tend to be roughly double times the cost of regional sites. So that's really what we're focusing. The 40% is not flagging a 40% reduction in branch networks. But I would say that branches will be different. So they will be smaller. In regional Australia, we're doing things like co-locating the brands in certain premises. So that's reducing the property costs. So even though we're represented in those regional areas, we're reducing property costs. So there's different things. But no, it's not a direct correlation. We just see that as the passage of time.

On risk and compliance, I'll let Michael add in. But really, the phases are, if you take what -- the work we've done on financial crime, uplift and uplift quickly, get that then automated and then there's an efficiency phase. So we're really, in financial crime, in the back end of the first, starting on the second phase before we get to the optimized phase. But that's how to think about it.

Did you want to make a...

Michael Rowland
Chief Financial Officer

Yes. So I'd just add on that, that remembering that we've identified previously that we need to uplift permanently our risk and compliance capability. So that is in our run rate and will continue to be in our run rate. But at the same time, there is a significant portion, not quite the number, probably about 50% of the number that you mentioned, that we believe as we progress the initiatives we have on board, will roll off over time, as Peter indicated.

Andrew Bowden
Head of Investor Relations

Okay. I'll take a question from Matthew Wilson, please.

Matthew Wilson
Evans & Partners Pty. Ltd., Research Division

Could you give me -- Okay. I've got 2 questions. The cost-out implies a large change in your branch footprint. How do you logistically service 3 brands in 1 branch with multiple core systems? And what does it entail for the value of the infrastructure that you build up to support our multiple core systems, the Customer Service Hub, et cetera, going forward?

And then secondly, as you highlighted in your presentation, a lot of the investment is directed towards the front end. Why isn't there a need to sort of tackle the complexity and duplication that exists in your core infrastructure?

Peter Francis King
CEO, MD & Director

So Matt, I'll do the first one. So what we're saying is effectively, the complexity is really a multibank complexity as opposed to multi-brand. And so if you start with the policies, policies being too complex and they need to be simplified, but also policy process, renovate those and then use digital capability to automate, what that leaves the product ledger is really a record system that's pretty dumb. It doesn't have the smarts in it because they all sit outside the product ledger. And so that's the thinking on the timing that we focus on effectively how to get to the product ledger as opposed to what's in the product ledger.

The one exception to that is data. So data is something that we brought forward in our agenda materially. Because if we can get the storage, transport and movement of data much simpler, then that fixes customer outcomes, reporting outcomes and information requirements. So that's the one exception in the back end, I think, that's got to come forward materially, and that's what we're doing. If you take a branch as an example, we now rolled out service-defined networks. So they're not sort of physical networks. We control them. They can be used across mobile branches, and the networks are pretty smart these days so that they can guide the user to the different back ends.

Andrew Bowden
Head of Investor Relations

I'll take a question from Ed Henning, please.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

A couple of questions from me. Firstly, on New Zealand, I just wanted to touch on. You're starting to see some repricing there with the increasing capital requirements. And then looking forward with BS11 and the capital requirements, do you still see New Zealand ROEs higher than those in Australia?

Peter Francis King
CEO, MD & Director

Well, probably hard for me to talk about ROE expectations because I've got to comment on pricing. So I'll leave that for you.

On margins in New Zealand, I think it was predominantly deposits was the driver of the increase in the NIM in New Zealand. So it's more been on the deposit side of the sheet than the line side of the sheet at this point.

Edmund Anthony Biddulph Henning
CLSA Limited, Research Division

At this point, okay. And secondly, just on the streamlining of fees that you talked about in your simplification, what's the delta in the second half you see coming through there?

Peter Francis King
CEO, MD & Director

Michael, did you want?

Michael Rowland
Chief Financial Officer

So we think that -- we see that there's a bigger impact in the second half. We haven't quantified that yet for you, but it will be bigger than the first half.

Andrew Bowden
Head of Investor Relations

[Operator Instructions] I'll take a question from Andrew Triggs, please.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Just a question on the cost plans, please. Can you help perhaps with the sequencing of the cost base towards that FY '24 target? Is it more linear or is it more back-ended towards FY '24? And also, just to clarify, are you assuming any write-down of capitalized software required? And is there an amortization expense headwind as part of the pathway?

Peter Francis King
CEO, MD & Director

I'm sorry, I'm really struggling to hear what the question was. It's a [indiscernible] line.

Andrew Triggs
JPMorgan Chase & Co, Research Division

Sorry, I'm just taking the headphones off. So just the sequencing of the cost base towards FY '24. So just the question was whether it's more back end weighted towards that final year in the program. Or is it more linear? And also, just a clarification whether there's sort of any write-down of capitalized software required to get there?

Michael Rowland
Chief Financial Officer

Yes. Yes. So Michael here. So just on response, so what I indicated is that we'll see a slight increase in costs this year to address our Fix agenda. Then we'll see a reduction in each year to FY '24. It's not quite linear. We have detailed actions in place, but it will reduce -- it won't rely all on the back end. It will be a successive reduction over each year.

On your second question on the write-down in capitalized software, so we did, in this first half result, take some write-down in capitalized software for assets that were either not in use or their use was impaired. So that was taken. We've also included a change in our capitalization process or threshold from $1 million to $20 million. So that had an impact on expenses, but we don't see a further write-down at this point.

Andrew Triggs
JPMorgan Chase & Co, Research Division

And could I ask a question on the business bank? So as part of that NPS slide, it shows a deterioration in the NPS score in the business bank, and loans did fall 6% to 7% across the product over the last 12 months. What needs to be done in the business bank to get back on a growth pathway? And how does that be -- how will that be managed through the consolidation of the Consumer and Business division?

Peter Francis King
CEO, MD & Director

Yes. Well, on the management, the line of business is business lending. So that's how we'll manage it. Two things I'd point to: We're probably a little bit conservative on our credit settings in the last 12 months, and we've reversed that. So that's something that the team has already put in place. And then likewise, service, so when we look at NPS in service, that's the piece that needs to improve in the NPS as well. It's probably particularly micro SMEs, small business that we're after there.

Andrew Bowden
Head of Investor Relations

I'll take a question from Azib Khan, please.

Azib Khan
Morgans Financial Limited, Research Division

Peter, remind me, you talked about consolidating your international operations. Does that have any implications for the mortgage processing centers you have in the Philippines and India? And is the current wave of COVID going through India again impeding your mortgage processing in any way?

Peter Francis King
CEO, MD & Director

Yes. So Azib, last year, we announced that we're bringing 1,000 roles back to Australia, particularly from India. And that was voice and critical mortgage processes. So we're about halfway through that. We're not all the way through it. So what's happening in India, which is pretty devastating, we think we've got a plan for. So it shouldn't have the impact that we had last year, but definitely a risk that we're alert to and managing.

Azib Khan
Morgans Financial Limited, Research Division

A question for Michael, if I may. Michael, how much further is there to tap on the term funding facility? And will you look to draw down on this entire remaining amount by the 30th of June?

Michael Rowland
Chief Financial Officer

We've got a bit more to go on the TFF. So we will look to draw that down over time.

Azib Khan
Morgans Financial Limited, Research Division

Do you know the dollar amount remaining there, Michael?

Michael Rowland
Chief Financial Officer

$12 billion.

Azib Khan
Morgans Financial Limited, Research Division

Okay. And just one final quick question. There's been plenty of questions about costs in your investment spend. Can you give us an idea of what sort of investment spend run rate you can sustain from FY '24 onwards?

Peter Francis King
CEO, MD & Director

Azib, we've given a pretty detailed 3-year plan, so I'll leave it at that. I don't want to get out past '24 at this stage.

Andrew Bowden
Head of Investor Relations

I'll take a question from Brett Le Mesurier, please.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

If we go back a few years, back to 2018 before the serious dramas, again, the cost-to-income ratio was 44%. Do you think with your FY '24 target, you'll be able to get to a number as low as that again?

Peter Francis King
CEO, MD & Director

Well, we'll see. But we've been deliberate today to talk about absolute costs. Revenue, we'll leave it to everyone to model and the impact of low rates, as we said. But for us, it's about being really clear on how we're running the company. And this is a big change, setting out an $8 billion cost plan for 3 years' time. Certainly, how I think about cost to income, it has to be competitive. And so that will be the way I look at it, but I don't want to get into guessing what it might be in '24.

Brett Le Mesurier
Velocity Trade Capital Ltd., Research Division

Just going on to a more specific question about this most recent result. The average deposit cost was 37 basis points in Australia when I look at the average balance sheet and the deposits and other borrowings line, which was down from 63 basis points in the second half '20, which implies that the point -- the 31 March point was probably materially lower than 37 basis points. Can you give me an idea as to what that number actually was?

Peter Francis King
CEO, MD & Director

Well, that would be the average yield. So that will be impacted by deposits in wholesale, but what we have -- we haven't given that number. What we have is the exit margin on Michael's slide on margins, and it pretty much showed that the margin was -- ex notables, the margin was slightly higher than the half.

Andrew Bowden
Head of Investor Relations

We'll take a question from [Matt Ingram], please.

Unknown Analyst

Look, I know we're focused on costs, and I'm sorry, I'm coming back to that one again. The history of these cost-outs tend to suggest that branch and head count is pretty sticky as a cost base. So I just wonder if you could please talk us through what kind of proportion of that branch staff is going to be reallocated? Because that obviously needs to come out somehow in order to get the cost benefit.

And the second one, regarding the branches. Those costs, they just disappear when you close them. So I wonder what the time frame is for those either leases rolling off or reallocation of those assets. Because those are tricky costs to move, they don't just disappear.

Peter Francis King
CEO, MD & Director

Just on branches, I think that there's probably too much focus on that. So the one thing about this organization is customers and branches, distributions, call centers all have massively important roles to play. And they all have big futures in this company. So branches, we may need less of them from a servicing perspective. And that -- and what we're seeing is customers go -- going using digital. So it's a shift in the channel. The digital channel is cheaper.

Go back to the 3 drivers that Michael and I outlined. One was reducing notable items, and that's improving our risk management. There's probably about 1,000 people working on those type of initiatives at the moment. The specialist business divisions, which we're selling, there's probably about 5,000 people working in there, many of which will go to the new owners. And then it's the corporate head offices. The smaller bank needs a smaller head office. And so that's -- and that will include everything from property in CBDs to less people in CBDs.

Andrew Bowden
Head of Investor Relations

I'll take a question from James Eyers from the AFR, please. Are you there, James?

James Eyers

This is James Eyers.

Andrew Bowden
Head of Investor Relations

Yes.

Peter Francis King
CEO, MD & Director

We can hear you, James.

James Eyers

Sorry for the delay. A question just related to the digital -- digitization theme, just sort of pointing to targets of 41% of digital sales now sort of rising up to 70% by 2024. I just wondered if you could talk a little bit around your thinking on that. Is that mainly mortgages happening in the branches now sort of going towards the sort of online, end-to-end digital model?

And I suppose a related question, a little bit more broadly, we're focused a lot on Westpac helping others with its banking-as-a-service strategy over the last year. What gives you confidence about the Westpac app itself. And your satellite brands, I suppose, is it going to be able to compete with all these new payment apps, BNPL, mortgage brokers, nonbanks all coming in on sort of digital fulfillment and end-to-end processes? What's the strategy to really get the Westpac app front and center in that new digital world?

Peter Francis King
CEO, MD & Director

Well, I think, James, I think what you're highlighting is it's a competitive market that we're in. We see service as very important in this company. And the digital landscape, including the app, needs to provide much easier and better service capability as well as sales, because things that people can do at home rather than coming to a branch is good for both of us, frankly. And so we will still have a strong brand. We will still have a great customer offer. We'll have great people in our call centers and our branches and our relationship management teams, and we think a lot of customers will still choose to come to the bank directly.

But we're also watching overseas trends. And increasingly, banking has been -- or partnering is happening for financial services with nonfinancial companies. And that's where the banking-as-a-service capability is a bit of a foothold in that capability. It may work, it may not. We've got some pretty good customers on there with Afterpay and SocietyOne, and we'll see. The other part of banking-as-a-service is that technology platform is what I would -- what we describe as cloud-native ledger. And there's not many of those in the world at the moment. So it's truly built for the cloud, and we see the optionality of using that in our core franchise. So there's a couple of things we're thinking about there. But we still think that the Westpac brand, the big national brand and our regional brands, have big roles to play. And many people will come directly to those brands.

Andrew Bowden
Head of Investor Relations

I'll take a question from Peter Ryan from the ABC, please.

Peter Ryan

Yes. Peter, I just wanted to get your view on the economic outlook given the very bullish numbers you've had really compared to this time last year. And how do you see things going given the risk of slow vaccine rollouts and the ever-present risk of more snap lockdowns from some states?

Peter Francis King
CEO, MD & Director

I think if we look at this time last year, March last year, what we were discussing was, will we have a vaccine? And so I sort of roll forward and think, gee, hasn't the world done a wonderful job in coming up with a number of vaccines? The logistics of rolling them out has probably been a bit harder than what we thought, but I'm confident we'll get on top of that. And so the recovery has really been a domestic recovery. It's been increased activity within Australia, and it's been good. I think you see it in the forecasts, the fact that we're talking about unemployment or forecasting unemployment of 5% at the end of the year. That's because the domestic activity is back. You're right, there's always a risk of us needing to manage an outbreak. But it's gone pretty well so far in that the tracing has been broadly effective.

So I think I'm probably more on the how do we solve these challenges, how do we get the population vaccinated and then that domestic activity gets shored up because we've got a lower chance of an outbreak. So that's where I am. The international borders is a much more complex picture because you're operating in a world where there's different levels of vaccination. And so that's probably going to be a bit longer than what we thought or hoped. But if we've got a domestic economy that is continuing to grow, continuing to employ people, I think that's really good for the country.

Andrew Bowden
Head of Investor Relations

We'll take a question from Clancy Yeates from The Sydney Morning Herald, please.

Clancy Yeates

Peter, I know you've had a lot of questions on costs. But look, in 3 years' time, when you've completed the plan, if it all works out, if you've disposed of those business, how many full-time equivalent staff do you expect Westpac will have?

Peter Francis King
CEO, MD & Director

Clancy, we're not -- it's a cost plan, not an FTE plan, is the first thing. So they'll be lower. That's -- because we're a smaller business, we won't have the [SPD]. We won't have the remediation, more digital. But there's also the opportunity that we'll grow parts. So one of the big unknowns for us is how people buy financial services. The human part of that is still very important, whether it's our banking -- our business bankers, our home finance managers, probably less in our service areas. But they'll be up. Others will be down. There will be increased need for technology and data. So that's a lot of moving pieces in there. What we've set out today is the plan on the cost base.

Andrew Bowden
Head of Investor Relations

I'll take a question from James Thomson, please, from the AFR.

James Thomson

Just quickly again on the costs. How big is the challenge in putting through another big program of change in a bank that's been through a lot in the last 2 years?

Peter Francis King
CEO, MD & Director

Well, if I step back, this is about simplifying the business for bankers and customers, better policy, better processes, more use of technology. The people are telling us that's what they want. The employees are saying, "That's what we want. We want our life to be made easy." The outcome of that is a different cost base. But for me, if you get the strategy right, be clear on what business you are, be clear on how you want to compete and then get people organized and paint the picture for where we're going to be in 3 years, I think people will be up for it.

Andrew Bowden
Head of Investor Relations

A question from Joyce Moullakis at News Corp, please.

Joyce Moullakis

I just noticed in your commentary that you did say that there's been an uptick in investor demand for home loans, albeit small. But can you just sort of characterize what your expectations are for that channel over the next 12 months? Is it likely to be a sort of a muted recovery or a bit stronger than that given where rates are?

Peter Francis King
CEO, MD & Director

I think there's a recovery, and it's sort of -- it is definitely part of the mortgage housing -- the home loan market growing from a 4% rate to a 6% rate. But it's contributing to that uplift as opposed to anything faster than that. So no, we're not -- if you go back to previous cycles, over 10% growth in investor, that's not the type of situation we're talking about. We're just saying investors are interested in coming back into the market.

Andrew Bowden
Head of Investor Relations

I'll take a question from Nabila Ahmed from Bloomberg News.

Nabila Ahmed

It was about your back-to-work policy. Could you talk a little bit about what level of employees you've got in the office and what you're aiming for? And what does the future of work look like at Westpac?

Peter Francis King
CEO, MD & Director

Well, in relation to the offices, if you take our branch network, everyone's been coming in all the time. And they've done a great job through COVID. If I look at our operations centers, again, the majority of people have been coming in. CBD sites have been a little bit less, but we're probably around 60% at the moment is where we're at. How we think about it is that will be very important for development, for training and education and for team and team alignment, particularly when we're changing things, that we'll have whole teams in the office to do that type of work.

But certainly, we're more flexible. We've learned how to manage people in different locations, and we closed branches during COVID and had other work done in them. We had a lot of people working from home. So time will tell where we settle, but it's probably going to be a little bit lower in the CBDs, as an example.

Andrew Bowden
Head of Investor Relations

Thank you. I'll take a question from [Gerard Coburn] from News Corp, please.

Unknown Attendee

I'm not sure if these lines are good or bad, so please let me know if it is. I just kind of wanted to -- on the point regarding kind of the smaller bank needs a small office size, will that be also in line with the company's ATM network moving forward? Will there be a considerable reduction in its network size?

Peter Francis King
CEO, MD & Director

Well, ATMs, I think, are a different issue, a different side of the coin. So it's about -- sorry for the pun, but the usage of ATMs will drive the size. So we have a large -- I think it's about 1,200 ATMs on site. We have another 700-plus with Prosegur. So we still have a large network. But we do find that with the uptake of digital wallets, electronic transactions are going up, and cash is coming down a bit. So I think it will follow what we're seeing in broader activity in cash in the economy.

Andrew Bowden
Head of Investor Relations

Okay. I'll take a question from Paulina Duran, please, from Thomson Reuters.

Paulina Duran

I hope you can hear me okay. Apologies to push you a little bit more on branches. But are they taking the base now at 88 -- 889 branches? If you cut that by 40%, it's about 355 branches that you would be cutting. You already said that, that's not a direct comparison. But can you guide us then a little bit of what is the right ballpark cut that you are thinking about?

Peter Francis King
CEO, MD & Director

We're not setting -- I've said this before, we're not setting out a -- it's a cost plan. We're not saying FTEs, we're not saying branches. We're saying the direction of travel on branches usage is down. And where we see opportunities on branches is in the metro areas, where there are a lot of branches. That's where we see it.

Paulina Duran

Right. And just following on [Gerard], I think there were reports of you guys sharing ATMs with -- before. Can you tell us where that is at? Is that plan going to happen? Or is that wrong?

Peter Francis King
CEO, MD & Director

ATMs, right now, and this has been the case, are pretty much fee-free for banking customers to use around the country. So every customer can use every other bank's ATM fee-free. So that's where we're at, at the moment.

Andrew Bowden
Head of Investor Relations

Thanks. I'll take a question from Kate Weber, please, from iTnews.

Kate Weber

Sorry. I was wondering if -- will the shift to the simplification and digital focus see Westpac employ more IT jobs and roles despite the goal of reducing costs?

Peter Francis King
CEO, MD & Director

I couldn't -- I didn't quite get that question. I'm sorry, the line is a bit -- broke up at the wrong time then. Could you...

Kate Weber

I'm sorry. Will the shift to simplification and digital focus see Westpac employ more IT jobs and roles despite the reduction in costs?

Peter Francis King
CEO, MD & Director

Generally, the direction of travel is data architecture, data analysis, process engineers, technology, generally, I would think. We would have more demand for that area, particularly in the next couple of years.

Kate Weber

Okay. Cool. So I may be hearing [indiscernible] investment [indiscernible] employing more IT [indiscernible]?

Peter Francis King
CEO, MD & Director

I'm sorry, I didn't actually get that question at all then.

Andrew Bowden
Head of Investor Relations

Okay. We might move on from there. It's a bit hard to hear. I'm going to do the last question now from James Frost from the Australian Financial Review.

James Frost

I understand there are multiple reasons for the delays in mortgage approvals with the recent volume being really critical. Can you tell us a bit about what you're doing behind those things to improve that? And have mortgage application volumes become a bit more manageable in recent weeks?

And secondly, if I could ask, just the additional investment in digital and the likes. Are there incentives there that you're using or additional ones that banks such as Westpac could really use in the future?

Peter Francis King
CEO, MD & Director

So on mortgages, you're right. The market's picked up again. So we are seeing more applications. What we're doing behind the scenes is, and I use this word, renovating our processes. So we're really looking end-to-end. We're resequencing the order. We're changing policies where they haven't made sense. Looking at how we had implemented responsible lending controls is a big piece in simplifying those. Also, the digital application is now available not only in the Westpac brand but the St. George brands.

So there's lots of -- and we call them 1 percenters internally, but there's lots of little things that are adding up. So there's lots of 1 percenters. It's not like there's a magic bullet. We're just being disciplined, knowing the business, thinking about it and renovating our processes.

Sorry, James, what was your second question?

James Frost

We're just curious about spending on things like cloud and of that nature. And we're just wondering if banks such as Westpac could use additional incentives or support at the federal level.

Peter Francis King
CEO, MD & Director

The benefit of cloud is not only you variabilize the cost, but more the software that's built to run on the cloud is what's called evergreen. So it upgrades itself regularly. It's not these -- you don't get these versions where you've got to hop between versions. And that's so much beneficial from a change the bank -- changing our bank, improving it over time. It's also beneficial from a cybersecurity perspective because you're running on the latest patches and they're easy to upgrade. So cloud's got a massive role to play in the future.

APIs, if you think about standard messaging and how we use it, some of the things that we've built in Customer Service Hub, decision engines, the way we bring customers into the bank, they can be used across our operations in our different brands. So I think a couple of questions on technology, we're going to need more skilled people. Our business people have got to be much higher skilled on digital and technology as well, and it's really interesting work to do.

Andrew Bowden
Head of Investor Relations
Well, thanks very much. I can see we've got a few more questions from both the media and the analysts online, but we're going to -- I'm going to call it a halt there. And we'll get back to you during the day. Thank you very much, and good morning.