

“Did you know...the lowest rate may not mean the lowest cost?”
Smart analytics score a High 5 for ANZ

ADMA Forum 2007

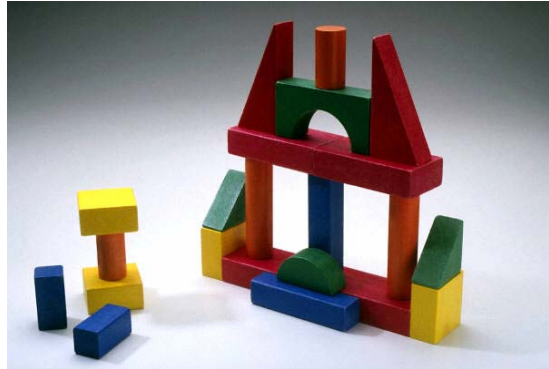
27 June 2007



DATA MINE



Overview



- ➔ Defining the problem
- ➔ What we did:
 - An integrated approach to changing the customer experience
- ➔ How simulation modelling gave us the answer we needed
- ➔ The challenge ahead

Defining the problem

2 Year Fixed

8.15%

5 Year Fixed

7.95%

- ➔ \$130b home loan market
- ➔ Fixed rate home loans represent 85% of the market
- ➔ 30%-40% of the entire market repricing every year
- ➔ Price focus
- ➔ Most people look at the lowest rate
- ➔ 24% of loans written at 5 year fixed

Defining the problem

“Everyone is an ‘expert’ at picking interest rates!”

- ➔ \$12 billion of market volume due to reprice in Spring!
- ➔ First question always “What is happening to rates?”
- ➔ Staff trained to not give advice
- ➔ How could ANZ add value to the customer conversation?

Looking for a solution

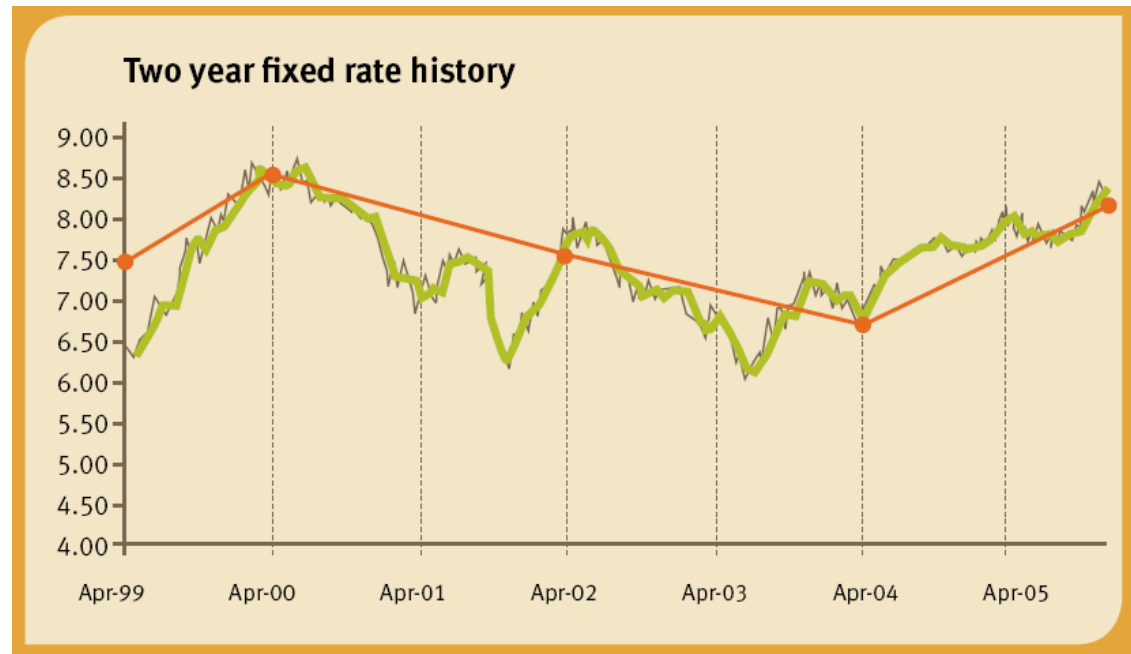
“Intuitively we knew the answer but that wasn’t enough ... we needed real evidence”

- ➔ There is significant value to be added in properly structuring a loan
- ➔ However, it is complicated and difficult to communicate
- ➔ We needed substantive facts that staff and customers could understand
- ➔ Using averages wouldn’t do the job

Going beyond price

“Intuitively we knew the answer but that wasn’t enough ... we needed real evidence”

➔ When you take a fixed rate, you don’t know what the future interest rate will be when your fixed rate expires



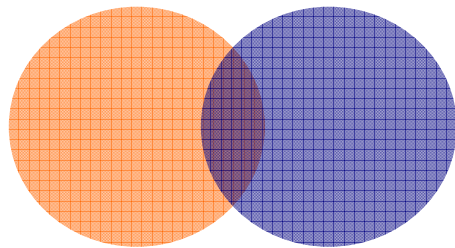
The challenge

“We simulated a customer taking a loan every day over the past 14 years and tracked how it performed over those fourteen years”

- ➔ Datamine **simulated** customers taking different “interest rate strategies” over the last 14 years of interest rate data
- ➔ The objective was to identify the lowest cost option and to quantify it

The analytics: Datamine steps up

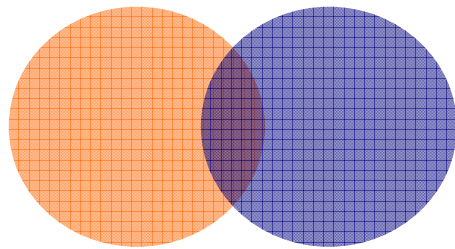
“The perfect balance: manipulating complex data to provide clear direction”



- ➔ 14 years of home loan data
- ➔ 14,000 interest rate data points for 2, 3 and 5 year terms
- ➔ Loads of data, loads of decisions, loads of outcomes!
- ➔ The key to the solution was characterising the data so conclusions would be:
 - specific enough to be useful
 - general enough to provide clear guidance - for the marketing/sales teams and the customer!

The analytics: Datamine steps up

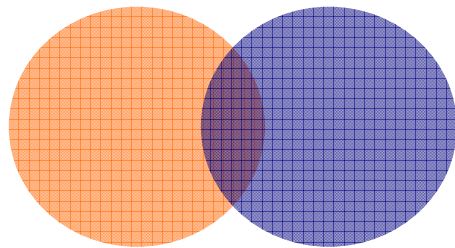
“The perfect balance: manipulating complex data to provide clear direction”



- ➔ The terms had to be compared for a period long enough to provide meaningful results, but remain relatively recent
- ➔ A comparative cost had to be scoped, defined and measured so different options could be evaluated
- ➔ The generally lowest cost option could then be identified
- ➔ The interest rate environment had to be described to enable atypical scenarios to be identified
- ➔ The analysis needed to be sound and uncomplicated

The analytics: Datamine steps up

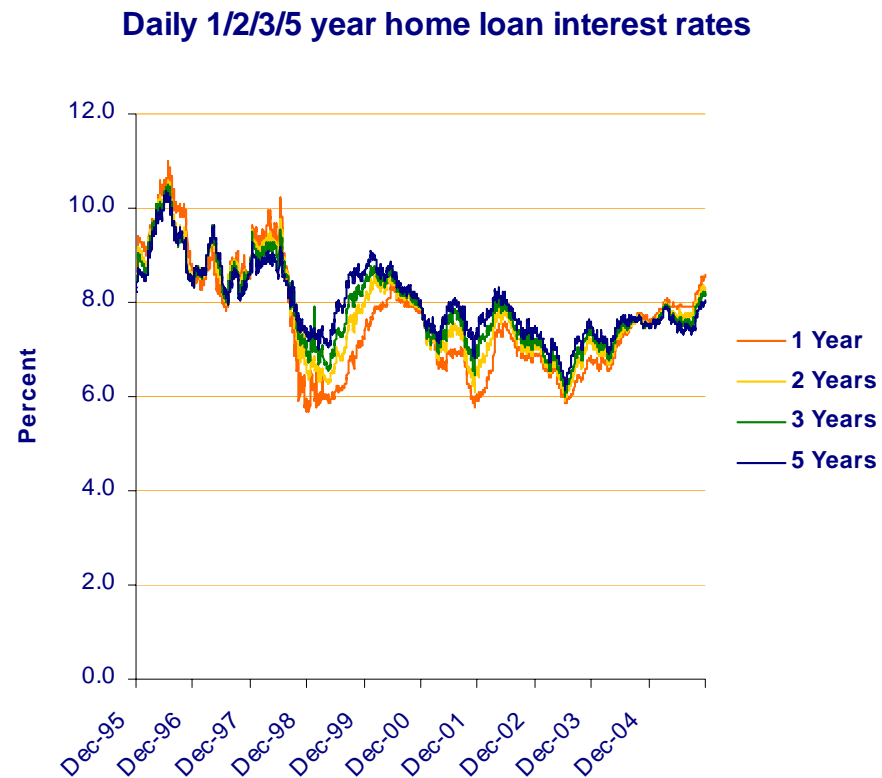
“The perfect balance: manipulating complex data to provide clear direction”



- ➔ This was done by taking a carefully planned approach
 - 1) measuring the relative cost of the nominally lowest interest rate
 - 2) identifying the usually lowest cost term
 - 3) describing, in a simple way, the conditions under which the usually lowest cost term did or did not turn out to be lowest cost

The analytics: Datamine steps up

The first step was to understand the interest rate environment



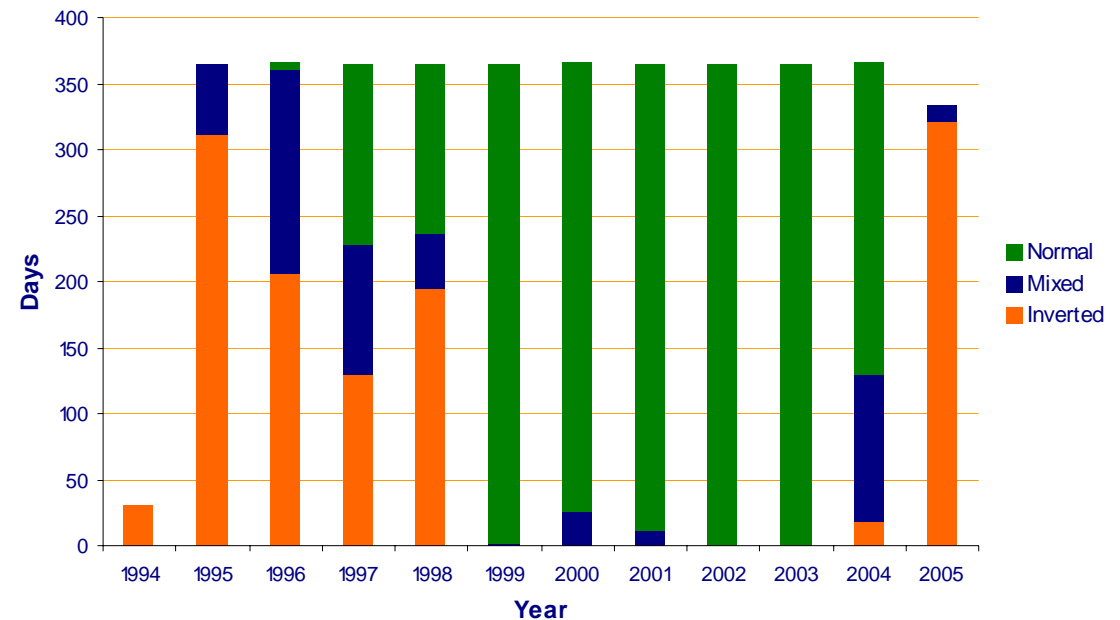
- ➔ Home loan interest rates have trended down for most of the past 10 years but have been rising again over the last two or so years

The analytics: Datamine steps up

The first step was to understand the interest rate environment

- ➔ The yield curve was normal 70% of the time and inverted 17% of the time
- ➔ 42% of the time, all four rates were lower than they were one year previously

Annual 1/2/3/5 year home loan rate yield curve behaviour



- ➔ Over the last 12 months, longer term interest rates have generally been lower (i.e. the yield curve has been inverted)

The analytics: Datamine steps up

“You want to pay the lowest interest rate you can - a shorter term fixed rate home loan may be the best way to go ”

- ➔ The lowest interest rate, when for a longer term, was never the lowest cost for the customer
 - interest costs were 3% lower on average, if 1 year rates were taken
- ➔ Shorter term (ie. 1 year) interest rates were more often than not, the lowest cost for the customer
- ➔ However, 2 year rates were better sometimes (and 3 yr rates too, but not quite so often!)
 - particularly those with a normal yield curve and after interest rates were higher than the year previous

The key messages

- ➔ The lowest rate is not necessarily the lowest cost option
- ➔ Short term rates are generally a lower cost option over the long-term
- ➔ Customers that require certainty should split their loan into two fixed rates with different terms
- ➔ Customers should avoid long-term rates if the loan might be repaid during the fixed rate term

Delivering the message

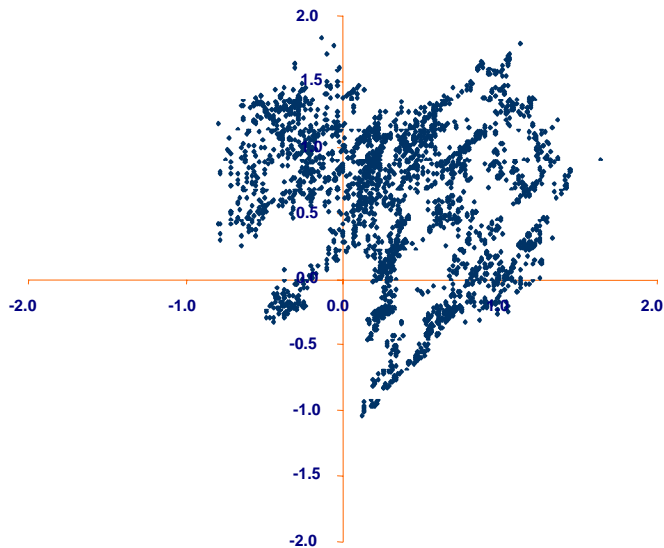


We spent 15% of our budget and 80% of our time on training.

- ➔ So there is significant value for customers in how you go about structuring a loan
- ➔ The first step was to make sure our staff could deliver the message
- ➔ Marketing got into the training game
- ➔ Specific training program (and sales tools). Trained all branch and sales managers, and our outbound team

The key insight

Three-year differential versus on-the-day differential



Information had to be interpreted and presented in a way people can easily understand



High 5 on Home Loans



➔ To embed the training we ran a six weeks sales focus on the top 4 customer drivers of value

- Get it right first time
- Empathy
- **Loan structure**
- Local knowledge

➔ The 5th was “Ask for Referral” and culminated in a national referral day

➔ These became **High-5**

Retaining existing business

“We have begun to integrate loan structuring into the way we do business.”

ANZ Loans Maintenance Services - Fix Rate Rollover
Lending Services Centre
PO Box 9886
Newmarket
Auckland
0800 ANZ HOME (0800 269 4643)

Customer Address:

Your account number 0487-0085957-91
24 January 2006
Dear Customer

Reviewing your fixed rate loan

Your ANZ Fixed Rate Home Loan is coming up for renewal. This loan is currently on a fixed interest of 7.35%, with the term due to expire on 3-Mar-2006. Now is the perfect time to consider your options.

You might decide to take advantage of our special 30 month fixed rate term at 7.59% p.a. This is available to existing ANZ customers and only until 07-Feb-06. Simply tell us what you want by completing and returning this form below.

Alternatively, if you'd like to restructure your loan, just call us on 0800 ANZ HOME (0800 269 4643) or visit our website at www.anz.co.nz. We'll be happy to discuss the many options available to you.

If you've already made arrangements with us about your loan, please disregard this letter.

Yours sincerely,

Steven Fyfe
Managing Director, ANZ Retail Banking

Customer Address:

Your account number 0487-0085957-91

Please use this form to choose from one of these options. Just complete and return in the reusable envelope supplied. If you discuss another option, such as a combination of variable and fixed rate terms, please call us on 0800 ANZ HOME (269 4643).

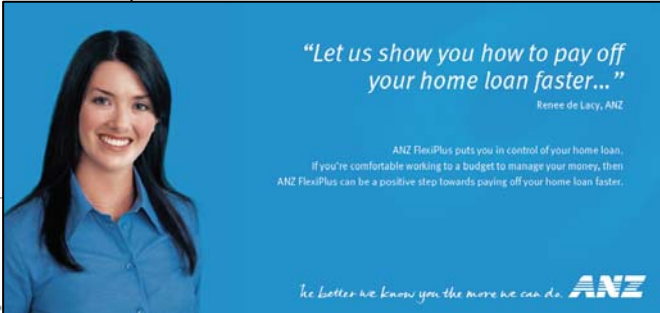
1. I want to take advantage of the special 30 month fixed rate term at 7.99% p.a.
2. I want to change my loan to another fixed rate term at:

<input type="checkbox"/> 6 months at 8.50% p.a.	<input type="checkbox"/> 1 year at 8.50% p.a.	<input type="checkbox"/> 2 years at 8.15% p.a.
<input type="checkbox"/> 3 years at 8.00% p.a.	<input type="checkbox"/> 4 years at 8.05% p.a.	<input type="checkbox"/> 5 years at 7.95% p.a.

3. I want to change my loan to an ANZ Standard Variable Rate Loan at 9.55% p.a.

These rates are valid until 07/02/2006. If you agree to a fixed rate above, you are agreeing to accept this rate upon the expiry of your current fixed rate term, whether interest rates increase or decrease in the meantime.

134650833 3-Mar-2006



Retaining existing business

“Marketing played a support role to our people ...

it reinforced the message”

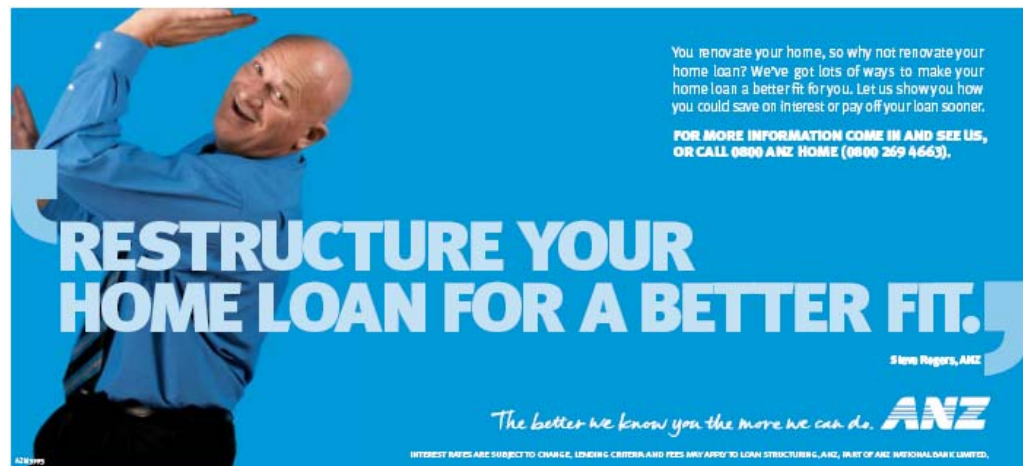
- ➔ Established a letter with tear-off fixed rate rollover process
- ➔ Used a special “early bird” offer for rollovers
- ➔ Incorporated loan structuring advice in accompanying flyers
- ➔ Outbound follow up by central team or Relationship Manager
- ➔ Retention tracking of rollovers by market and branch

New business

“The IP has worked extremely well face-to-face.”

“80% of the result comes down to the quality of conversations with customers”

- ➔ Conferences/seminars to interest groups
- ➔ Fantastic for referrals
- ➔ Challenge to find strong call-to-action in press



You renovate your home, so why not renovate your home loan? We've got lots of ways to make your home loan a better fit for you. Let us show you how you could save on interest or pay off your loan sooner.

FOR MORE INFORMATION COME IN AND SEE US, OR CALL 0800 ANZ HOME (0800 269 4663).

RESTRUCTURE YOUR HOME LOAN FOR A BETTER FIT.

Steve Rogers, ANZ

The better we know you the more we can do. **ANZ**

INTEREST RATES ARE SUBJECT TO CHANGE. LENDING CRITERIA AND FEES MAY APPLY TO LOAN RESTRUCTURING. ANZ, PART OF ANZ INTERNATIONAL BANK LIMITED.

The future of High 5

“The real win was giving our people the confidence to give advice ...

and most importantly ...

the right advice”

- ➔ 4% lift in market share of growth over Winter
- ➔ 15% automatic rollover from letters
- ➔ Silver award at the 2006 Nexus marketing awards for datamining and analytics
- ➔ Sticking with it
- ➔ Stronger call-to-action in our above-the-line