

**AFR Banking and Wealth Summit**

**Thursday 6<sup>th</sup> April 2017 (Day 2 of program)**

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**'Shorter and faster': transformation cycles in a transitioning economy**

\*Check against delivery\*

Good morning everyone.

I am pleased to be here today to talk about the shorter and faster transformation cycles corporate Australia is seeing in today's transitioning economy. I will give my perspective on how organisations, and we at Westpac as a major financial institution, are adjusting. I'm going to approach this challenge by outlining three main themes:

- Firstly, that markets are now inherently more volatile and cycles shorter than we had seen prior to the GFC.
- Secondly, that the tsunami of change being brought about by technology and digitisation, whether it's around global connectivity, data analytics, smart machines - have the potential to alter every aspect of business. This requires leaders to think completely differently about their strategies. We as a bank need to think completely differently about how to add value to our customers and, indeed, from a risk management perspective how to identify the winners and potential losers; and
- Thirdly, that while strong value-based leadership has always been aspirational, it has never been more important than it is today.

### **1. Shorter and more volatile market cycles**

Taking a look at market cycles, if you had predicted 12 months ago that Britain would break away from the European Union and Donald Trump would be the leader of the free world, you would have got some decent odds.

If you looked harder into the crystal ball to see that despite these events, global financial markets would be in better shape with signs of economic recovery across all developed countries, your credibility would have been questioned even more. Think back. Twelve to eighteen months ago central banks were concerned about a global economy in secular stagnation. The Bank of Japan and European Central Bank had driven interest rates into negative territory. The Chinese devalued their currency sending markets into shock, and commodity prices were at shattering lows.

Fast forward to today, **how quickly** situations can turn.

- The Australian economy lifted from a low point in the September quarter to finish 2016 at 2.4% growth. Growth in 2017 is expected to be 3%
- The relatively low Australian dollar and record low interest rates have supported growth in the services sector, a rise in residential and infrastructure investment and improved net exports. These gains have offset the slowdown in mining investment
- We have seen the growth states of NSW and Victoria turn deficits into surpluses through asset sales and surging stamp duty revenue
- Equity markets are responding. Both the Dow and S&P are near new highs in response to confidence in President Trump's promise of infrastructure, jobs, and tax cuts. Although recent events have been a reality check for markets
- Oil, gas and iron ore prices have boosted Australia's terms of trade improving the prospects for the coming budget
- Global manufacturing PMI sits at 52.9 (Feb) - the highest level since early 2014. Growth in the index has tended to come from the US and Western Europe, however the Eurozone PMI is now sitting at a 68 month high.

I can tell you from this vantage point, things are looking up - but for how long?

As a career banker, I have seen my fair share of cycles and market conditions. Being responsible for supporting Westpac's relationships with Australia's largest corporates, state governments and institutions, I have a privileged insight across the overall economy. The observation I would make is that **cycles of change are getting 'shorter and faster'** and the ability of businesses to successfully traverse them are becoming all the more challenging.

## **2. This brings me to my second point**

The tsunami of change coming from technology and digitisation are challenging all businesses.

While many bankers and investors in the room would associate 2008 with the sharp deterioration in global markets that was exacerbated by the collapse of Lehman Brothers, 2008 was also an inflection point for the digital economy. Why? Because it was hot off the heels of the first release of the Apple iPhone heralding a change in the way information and services were distributed and accessed<sup>1</sup>.

If you consider this digitisation as part of our fourth industrial revolution, together with other global mega-trends such as a shift of economic power from west to east, an aging population, rapid urbanisation and resource scarcity, it is not surprising that businesses are challenged by these major transitions across our economy.

We have seen the average lifespan of a company on the S&P 500 index decrease from 61 years in the 1958 to just 18 years today<sup>2</sup>. Three out of the top ten companies in this index comprise companies that didn't even exist 20 years ago, let alone companies that simply grew larger – think Facebook, Amazon and Google<sup>3</sup>. When you consider the speed of this change, businesses need to think differently about their strategies, be prepared to try new things and be prepared to partner with

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<sup>1</sup> <https://www.technologyreview.com/s/427787/are-smart-phones-spreading-faster-than-any-technology-in-human-history/>

<sup>2</sup> Study led by Innosight director, Professor Richard N. Foster "[Creative Destruction Whips Through Corporate America](#)" S&P 500 Lifespans are Shrinking, February 2012

<sup>3</sup> Bloomberg Terminal Data as at 9 February 2017; KPMG Demographics

others to move more rapidly. At Westpac, as a large, complex organisation in operation for 200 years, we also need to think differently about how we conduct our business to remain as relevant and value-adding to our customers as we have in the past.

We've seen the way our customers' needs have changed since the rise of the smart phone. Where once people visited a branch to bank a cheque or withdraw cash, these days the majority of banking transactions are done online.

Each month Westpac customers log on to our online, mobile and tablet banking over **93 million** times. **12 million** of these log-ins use our Quick Balance feature<sup>4</sup>, allowing customers to check their balance at a glance, whether they're on the bus on their way to work, or in line for their morning coffee - banking is at our fingertips.

However, a great banking app is no longer enough in today's fast changing world. People now want the convenience to pay for things without having to exit the social chat they are having with friends to login to Westpac Live. The new "Westpac Keyboard" makes banking accessible through Facebook, Messenger, Snapchat and Whatsapp<sup>5</sup>.

Look at e-commerce giants **Alibaba** and **Amazon**. They too are responding to the growing population that is constantly connected to digital devices. The **Amazon Go** technology combines the ease of e-commerce with the touch and feel experience of shopping in store. It lets customers walk in, take what they want, and walk out, with goods billed automatically to the customer's account.

Indeed one of our customers, a leading canola oil producer **MSM Milling**, has created a new brand targeting Asian consumers and onsite bottling plant to expand export options through these emerging e-commerce channels.

As a bank, we must facilitate this need to connect buyers and sellers in faster more efficient ways. Our ultimate goal is to make payments so seamless, the only thing

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<sup>4</sup> Westpac Group Technology data

<sup>5</sup> 28/03/2017 Introducing '[Westpac Keyboard](#)': Australia's new social banking solution

consumers notice is more convenient access to the things they need. For our corporate customers they will notice improved cash flows as payments happen in real time.

An example of our innovation here has been in the healthcare sector, where we saw an opportunity to develop a service called **LanternPay** through our partnership and investment with fin-tech InLoop<sup>6</sup>. The customer problem was to overcome a complex payments system for people seeking care under the Federal Government's A\$22 billion National Disability Insurance Scheme. LanternPay is like a 'digital wallet', so that real-time authorisation will allow service providers to get paid for the care they deliver and for Government and scheme operators to be able to monitor the frequency and type of spending, as well as benefit from rich data insights.

These data insights are increasingly important to help our customers transform. By analysing purchase behaviours we are working with another fin-tech partner Zetaris to understand where consumers prefer to shop and what they prefer to buy. We are helping the Australian meat wholesaler **Super Butchers** understand where to set up new locations and improve sales. Likewise, we are helping **property developers** identify locations for new developments and the demographic mix of people who will buy there.

Larger companies like **Qantas**, whom we have banked for 95 years, are also impacted by technology advances and digitisation. The introduction of free inflight WIFI for Qantas has not only captured first mover advantages but enables pilots to stream real-time information on weather conditions. This means they can dodge areas of turbulence and find tailwinds. They can also use communication services to reduce medical diversions, for example if a passenger is experiencing chest pains they send the heart scan data to a medical officer on the ground to decide if necessary to divert the plane<sup>7</sup>.

All this digitisation is highly relevant for banks – especially one like Westpac that serves the full range of customers from micro to SME to corporate and institutional.

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<sup>6</sup> 15/03/2017 [Westpac backs new entrant into the health insurance payments market](#)

<sup>7</sup> <http://www.qantasnewsroom.com.au/roo-tales/pretty-fly-for-the-wifi/>

Our lending decisions and risk management are increasingly based on cash flows rather than underlying assets. More and more companies today don't own physical assets. Their wealth is in intellectual property, human capital and their strategy.

Shorter and faster cycles are challenging business. For banks, it impacts how we manage risk, where we should invest, our funding sources and how wealth is created. You cannot look at growth sectors and simply predict performance based on fundamentals. Banks need to pay attention to how well business leaders understand their strategy, are anticipating the life cycles of their industry and the shifts in their comparative advantage. Like us at Westpac, many of our customers are challenging themselves to ensure;

- People and processes are completely focused on the customer
- Customer data is standardised - to use analytics to add value
- Collaboration happens across the horizontal rather than just vertically down the business divisions
- As we digitise more, do it quickly, fail fast and protect ourselves from cyber-attacks
- Evaluate prospective partners and ensure we develop mutually beneficial relationships
- Set the right level of aspiration, purpose and values to drive a culture that can rapidly adapt to this change
- Drive a growth mindset and value the importance of enterprise skills – problem solving, critical thinking, collaboration, communication and the ability to work across the organisation, to understand what the customers' needs are and make sure we're responding in an appropriate way.

### **3. This brings me to my third point. The role of leadership**

Recognising how transformation is impacting our businesses is one thing. Knowing how to mobilise your workforce behind a compelling purpose and vision is an entirely different matter. This all comes down to leadership.

At Westpac this has been identified as a priority. Like many of our customers, we have a workforce revolution underway that takes a multi-faceted approach. We recognise that in rolling out innovation you can't expect change to happen without empowering your people to drive it. You need to reset KPI's to motivate and measure service performance rather than sales targets. People don't want to be given feedback and be assessed on something they did 12 months ago – but what they did in the past 90 days or less. In these reviews we need to be asking people what they have learnt NOT what they have done. Likewise, we have learnt that our culture of diversity, inclusion and encouraging flexible hours not only attracts the best talent but creates the best business outcomes.

A recent KPMG report talks about the “***Rise of the Human, and the integration between digital and human labour***”. It reveals that by 2025, up to two-thirds of the US \$9 trillion marketplace of knowledge workers may be affected<sup>8</sup>. In this context the need for social and enhanced human skills becomes more relevant as routine jobs are the ones likely to be replaced by cognitive platforms.

There was a time when radical change happened every few decades. Now it feels like it happens every day. Transformation requires good leadership, it requires people with a sense of purpose and a business structure that can pivot and adapt to change in line with customer needs.

In closing, I would like to talk about a Westpac initiative called Businesses of Tomorrow.

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<sup>8</sup> <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2016/11/rise-of-the-humans.pdf>

Over the last year, in the lead up to our bicentenary celebrations, Westpac ran a search to identify 200 Businesses of Tomorrow. This concept called for companies with the potential to shape the future of Australian business for the better. They needed to be resilient, adaptive and make contributions to shape Australia in ways big and small for their customers, employees and the community<sup>9</sup>.

We received over 2000 nominations and the top 200 will be announced tomorrow. Winners will receive direct support and intellectual capital from some of Australia's leading business people.

From my position as one of the judges the insights were compelling. I found that all of these businesses are facing into some form of change and transformation for the reasons I expressed earlier. It was apparent to us that staring into these shorter cycles with the right mindset and organisational culture, put them in an ideal position to be influencing the pace of change.

Instinct tells me, these are the companies that the RBA Governor Philip Lowe is looking for when he implores business to get its mojo back. They are also the ones with the potential and capability to contribute even more to our economy with Westpac's support.

Australia is in better shape today but we can't sit around wondering how long it's going to last. Growth is not necessarily going to be focussed in particular sectors like we saw during the mining boom. Success will be underpinned by leaders who can drive change and inspire their people along the way.

In times of uncertainty, leadership will be the game changer.

Without a doubt, the global economic, government and commercial landscape is undergoing transformation and those paying attention to these windows of opportunity are coming out on top.

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<sup>9</sup> <https://www.businessesoftomorrow.com.au/>

In only two short days, Westpac will mark its bicentenary as not just Australia's oldest bank but Australia's oldest company. That's 200 years of supporting the growth of Australia and 200 years of adapting and adjusting to a changing environment. We serve 13 million customers and as the leading institutional bank in the country, serve as banker to 93% of the top 100 companies in the ASX and many thousands more.

We look forward to continuing to serve Australia's economy and to assist our customers with their own journeys of transformation. We see ourselves as not just a traditional banker but as a Partner in Change – helping our customers thrive today and redefine tomorrow.

Thank you for your time.