Brian Hartzer, Westpac Group CEO
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Thank you Peter.

Good afternoon everyone, and thank you for coming.

I'd like to thank AmCham for the invitation to speak today. I first moved to Australia from the US 24 years ago this month, and it's fair to say that back then I never expected to be standing here, a quarter of a century later, as a proud Australian, leading Australia's oldest company.

Today I'd like to share a few reflections on the differences between my two countries, talk about some of the challenges facing Australian banks, and then how we at Westpac are adapting to these challenges – including some new steps we're announcing today.

I've been in the US twice in the last two months, so I thought I'd start with some observations from those trips.

And no, I'm not going to talk about US politics, but if that's an interest I would encourage you to check out Stephen Colbert's daily monologues from the Late Show – they're on YouTube and pretty much say it all.

What I would like to highlight is the positive sentiment and momentum of the US economy.

Whether it was GDP growth, unemployment, inflation, capital spending, factory orders, wage growth, or the Fed tightening cycle – businesses and investors consistently said that the US economy was strong and improving.

However, some clouds have emerged on the horizon: Consumer spending has slowed a little, and there's growing concern about the impact of trade policy on capital spending and confidence. But these haven't fundamentally dented the momentum or outlook.

And despite the political noise, it's important not to overlook the steps that have been taken to drive domestic growth.

One of the economic officials put it like this: "We want to reward success, not punish it… If you tax something less, you get more of it".

The belief is that business investment drives productivity, which helps improve everyone's standard of living.

So they've cut the corporate tax rate to 21%, allowed 100% expensing of equipment, and provided incentives for companies to repatriate earnings held offshore.

Whether you agree with this approach or not, it's worth reflecting on the contrast to some of the dialogue in Australia, where both business and personal tax cuts have been described as some kind of gift, or handout – which basically assumes that governments are better at investing people's money than those individuals or businesses are.

And if there's one thing we can learn from the US, it's that without a vibrant, innovative, and profitable business sector – of both small and large businesses – the services, protections, and high standard of living in Australia won't be sustainable.

Looking beyond the US, it's worth noting a couple of international developments that are quite significant for Australia.

As US politics cycles back towards isolationism, there's an emerging power struggle around who gets to write and enforce the global rules.

China’s economy is already almost as large as the US, and its economic influence is accelerating with the Belt and Road initiative.

With Brexit, the dynamics of European trade is shifting. Russia and various Middle Eastern nations are seeking to play more influential roles in regional economic development. Meanwhile the stabilising roles played by global organisations like the WTO, the IMF, the UN, and the Basel Committee are all being challenged.

The irony is that although we’re living in a time of unmatched prosperity, connectivity, and technological innovation, the world economy is arguably becoming riskier and more complex. And a cascading trade war would be bad for the world’s growth and prosperity – particularly for the poorest countries.

Fortunately, Australia remains well positioned both politically and economically to deal with these dynamics.

But with so much global uncertainty, it’s vital that we don’t take Australia’s prosperity for granted.

Australia needs policies and regulation that encourage businesses and investors to take risks, to invest, and to innovate.

As it stands, Australian business customers tell us that the most significant barrier to their success – even more than funding and taxes – is the layers of, and constant changes to, regulation. In fact, a study by Deloitte commissioned by our Business Bank found that government regulation is costing the economy around $94 billion each year.

To put that in perspective, that's more than the Federal government spends on healthcare, transport, and communications combined.

Without a successful business community, we won't have the growing employment and tax base we need to fund the services and quality of life that we aspire to – especially for our most vulnerable people.

As part of this it's critical that our banks remain strong and profitable, so that they can continue to support consumers and businesses, and therefore the country as a whole.

Australia continues to run a significant current account deficit. That means Australians rely on the major banks to raise money offshore to help finance people's homes, cars, businesses, hospitals, roads, and other critical infrastructure.

Westpac alone has a loan portfolio of more than $700 billion– the vast majority of which directly supports Australian households and the businesses that employ our population and pay taxes.

Supporting those loans is around $160 billion in offshore institutional funding, and we replace or roll over about $70 billion of this funding each year.

The important point is that global investors have choices. If they get concerned about an economy or its banks' ability to generate earnings, they will increase the price at which they'll lend, or reduce the amount they're willing to lend.

And it's worth noting that bank earnings don't pile up in a vault: they go straight back into the economy through salaries, spending with local suppliers, dividends to investors, super fund returns, or taxes paid – in fact Westpac is Australia's second largest taxpayer. What's left after that is the capital we use to grow lending and support consumers, businesses, and the community.

We take this commitment to supporting the economy very seriously. Helping Australia and Australians to thrive has been the purpose of this company since 1817.

In fact it’s the role banks play in helping people that drew me to banking in the first place; and it’s something I see every day in the commitment of our people to helping their customers and their communities.

People like Kerie Mcguigan, one of our personal bankers, who recently served a young customer who sadly had terminal cancer. He’d come into the branch to pay off a loan for $15,000. But rather than take this on face value, Kerie decided to do some research and found he had insurance that would pay off the loan.

Or people like Emily Fraresso, a business banker who works tirelessly to support STREAT– which is a Melbourne-based social enterprise that helps homeless and at-risk youth.

Emily is not only STREAT’s banker: She’s helped bring STREAT’s catering business into our corporate events, helped their coffee business expand to support industry conferences, and volunteered her own time – all of which has helped STREAT triple the number of young people it helps through its program.

These stories don’t make headlines, but I can assure you that they’re typical of the actual commitment to helping customers that I see every day.

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That reminds me of one of the great positive contrasts that I see in Australia versus the US – that Australia is a “we” culture, rather than a “me” culture.

Let’s face it – we live in a land of droughts and floods; our mining and agricultural industries are subject to booms and busts; and there are a lot of things that can eat you.

From the earliest days Australians learned to stick together in order to survive – and today that translates to a willingness to make sacrifices for the greater good – universal health care being the most obvious contrast to the US.

It’s partly for this reason that we have such high expectations of Australian institutions. And why the stories coming out of the Royal Commission have had such a big impact on people’s trust in banks: because they suggest that at times banks – or the people who work in them – have put their own interests ahead of their customers or the community.

And this concern is especially pronounced – and rightly so – where it involves the most vulnerable in our community.

In our submissions to the Royal Commission, we've identified issues that we know should never have happened.

As the CEO of Westpac, the case studies that have come to light are very confronting. Many of these stories are just unacceptable, and some of the issues took too long to fix.

And for the record, on behalf of all of us at Westpac, I apologise without reserve to any customer who has been let down by our mistakes.

This is not what Westpac is about, and we know we need to do better.

We also know it's not enough to say sorry: We need to fix it.

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So – what are we doing at Westpac?

While it's too soon to know what changes the Royal Commission will recommend, there are some clear themes that we know are contributing to the trust gap.

And today I'm announcing some further actions that we are taking to address a number of these themes.

Removing conflicts – remuneration reform

The first is around the perception that some of the incentives for our people, or third parties, have been structured in a way that put the interests of the bank and its shareholders before the interests of customers.

Whether these conflicts of interest are perceived or real, it's important that we reduce – if not eradicate – these tensions wherever possible.

At a minimum, customers have the right to understand what they're signing up for, and how financial services providers – and their employees – are being paid for the services they deliver.

The Sedgwick review – which was an independent report commissioned by the Australian Banking Association into how banks should reward customer-facing staff – looked at this issue in detail and made a number of recommendations.

Today we're announcing that we're fully implementing the recommendations of the Sedgwick review for our employees two years earlier than required.

This means that, from October this year, incentives for consumer and business banking customer-facing employees will be further weighted towards providing great service and doing the right thing, rather than product sales.

This builds on steps we took two years ago as the first bank to remove sales incentives for tellers, and to de-link increases in base pay from product sales.

In another step, from October of this year, customers of BT Financial Advice will benefit from the removal of grandfathered payments attributable to their BT superannuation, investment, insurance and platform products – even though these payments remain permitted under the Future of Financial Advice reforms.

This will benefit more than 140,000 BT customers.

Resolving customer concerns

A second area of focus is on improving the way we deal with customer issues and complaints – an effort that builds on the important role played by our Customer Advocate, Adrian Ahern.

For context, the work we've done on service over the last few years has dramatically reduced the number of customer complaints: In fact less than 0.3% of customers now complain in a year.

But for a company that aspires to be a great service business, we recognise this is still too many.

And the area where we've clearly fallen short – as highlighted by the Royal Commission – is in responding to vulnerable customers.

What we've seen in some of these situations is that the customer knows things are starting to go wrong, but for a variety of reasons gets 'lost in the system' until their problems have escalated.

We need to become more proactive at spotting customers who might be vulnerable or at-risk, and putting them together with the right decision-makers to address problems before they escalate further.

To do this, last month I appointed a new group executive – Carolyn McCann – to oversee all customer complaints and their resolution across the Westpac Group.

Under Carolyn's leadership we are increasing the visibility of customer complaints at the highest levels of the Bank, and investing in the people, policies, and technology to resolve complaints in a fair, consistent, and timely way.

For example, we are now using artificial intelligence to listen to the thousands of customer calls that come into our contact centres each day, helping us pick up on issues that require immediate action.

We're simplifying our website to make it easier for customers to give feedback or raise concerns. And we're creating a dedicated contact centre team to support our Aboriginal and Torres Strait Islander customers, taking into consideration some of the identification challenges and cultural differences faced by these customers.

The bottom line is, we want to make it easier for customers to have their say, even if it means the number of complaints rises for a period. We prefer to see each complaint as a second chance – not only to fix the problem, but to recover and strengthen a long-term relationship.

Reducing complexity

Another theme that's emerged from our work on complaints is the impact of complexity – in our products, processes, systems, and compliance requirements. Well-intended changes over the years – usually aimed at improving service or providing new protections for customers – have too often resulted in making banking more complex, opaque, or error-prone.

For example, these "innovations" have led to long, hard-to-understand disclosure documents, legacy products sitting alongside new products with different terms, fees, and conditions; and forcing customers to follow different processes depending on whether they visit a branch, mobile app, or broker.

In some cases, this complexity has caused us to make errors such as over-charging fees or, worse, not delivering benefits that customers had paid for.

This led to an initiative we call ‘Get it Right, Put it Right’.

We’ve already reviewed more than 320 products and made over 150 changes – for example, reducing the number of consumer products on sale by more than 50%, and reducing duplicate statement fees.

And we’re investing billions of dollars in upgrading our technology platforms and digital apps to provide more reliability and better service in the future.

Building a culture of service and accountability

Of course, the fundamental responsibility for getting things right for customers rests with our employees.

For over two years, everyone in the Westpac Group has been required to participate at least weekly in a short “service huddle”. It’s a time when we ask our people to focus exclusively on the quality of service we’re delivering to our customers and to each other.

It’s an opportunity to celebrate and share stories on where things have gone well, and to discuss openly what we need to do better.

More recently we have emphasised the need for a culture where people challenge decisions or processes that don't seem right, and are empowered to fix things on the spot. We constantly encourage our people to speak up, and every single employee has the ability to raise suggestions or concerns with me directly through email or our internal social network.

Later this year, we'll conduct a one-off exercise where the entire company – nearly 40,000 people – will 'down tools' for half a day to review and recommit to our values, our service standards, our code of conduct, and our expectations around ethical behaviour and treatment of our customers.

We're reinforcing to everyone who works at the Bank that if they breach the high standards we've set, it won't be tolerated, and they will face consequences – which have been clearly outlined in a new Group consequence management framework.

In saying this I want to stress that the examples of misconduct being examined by the Royal Commission are not representative of the overwhelming majority of people at Westpac.

In fact, I'm willing to bet that if you walk in to any of our branches, invite one of our bankers to visit you at your office, or just have a chat with one of our operations managers on the sideline of your daughter's netball match – you will find yourself talking to an ethical, highly-trained professional who is proud of the company they work for and the contribution they make to their customers and their community.

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To sum up, at Westpac we know we haven't got everything right – but we're absolutely motivated to run our business in a way that's fair to customers, fair to shareholders, and supports the growth of our economy through its inevitable ups and downs.

Like all banks, the continued success of our business relies on the trust placed in our company by our customers. As Australia's oldest company, having experienced many ups and downs over the past two centuries, we also know we can't take that trust for granted.

That's why we're not waiting for change to be imposed on us by the Royal Commission: The actions I've outlined today show that we're listening, we're reflecting, and most importantly: we're acting.

Thank you for listening, and I look forward to your questions.