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'Third Century Banking'

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CHECK AGAINST DELIVERY

Introduction

Good afternoon everyone.

And a special thank you to the Trans-Tasman Business Circle for inviting me today.

I'd like to start by acknowledging the traditional owners of the land we're meeting on today—the Gadigal people of the Eora Nation—and pay my respects to their Elders, past and present.

My topic today is how Westpac—Australia's oldest company—is responding to the forces of change.

And it's hard to make an acknowledgement of country, standing in the Rocks in Sydney, without reflecting on the way change has affected people in this very neighbourhood—particularly the Indigenous people who were here when the First Fleet arrived.

For many Indigenous people, that change has had longstanding effects on their health, their culture, and their relationship with the land.

For thousands of years, as the original inhabitants of this continent, change was incremental.

And then all of a sudden their whole world was turned upside down.

True, not all of the change happened overnight. But the arrival of those first ships certainly kicked off a process that has been seismic in its impact.

Profound change is often like that.

We can see the sails on the horizon.

We might be curious about the new people.

We may wonder at some of the new products and skills they bring with them.

But from day-to-day, we seldom realise how the things that we take for granted are about to disappear, or at the very least, change beyond recognition.

We've certainly seen this at Westpac.

Back in April of 1817, the Bank of New South Wales opened its first branch and head office in Macquarie Place, about 500 metres south east of here.

And just a few weeks ago, Westpac opened its newest office at Barangaroo, about 500 metres south west of here.

In some ways, the two sites couldn't be more different.

Australia's first bank branch was situated in a small house rented from a former convict, Mary Reibey. Before it was a bank, the house was a pub.

Compare that to Westpac's new office at Barangaroo—one of the most advanced workplaces in the country.

And, yet, despite the near 200 years that separate them, those two incarnations of the bank I now represent—the Bank of New South Wales that became Westpac—had, and have, a lot in common.

If Mary Reibey's tenants from 1817 could join us at the dawn of our third century of business, they would see a bank guided by the same purpose: to support the economic progress of Australia—and New Zealand—by delivering great service.

That purpose – progress and service – has been the compass that guided our company through many ups and downs over the last two centuries.

And as the region enters a period of intense change, progress and service will remain Westpac's compass.

But before I talk to you about where that compass is pointing Westpac, let me put our challenges in a broader context.

Australia has seen enormous change over the past 198 years, but seldom have we seen a period where external forces are so rapidly disrupting the way we live and work.

By this I mean:

- The impact of an ageing population
- The emergence of a massive Asian middle class
- The structural shift from mining to services
- And the accelerating impact on all of these from new, disruptive technology.

These forces are driving a major transition in our economy—an inflection point that creates threats for some, and incredible opportunities for others.

Take the impact of digital technology for example.

The list of companies that have failed to adapt to digital change is long and well known. Many of you could recite the list: after all, how many of us grew up with Kodak, or Atari or Blockbuster?

So where did they go wrong?

And more importantly, how should established companies think about technology—right now—in ways that improve the chance that we'll survive and thrive?

Ironically, I would argue that the key to success is not to focus on technology.

Rather, the key to success is to focus on the customer, and what they're trying to achieve.

To have what we call a higher purpose—and then to think about how the new tools of technology might help you achieve that purpose. Tools like mobile devices, cloud computing, downloadable apps and social media.

‘What’s new about that?’ You might be saying.

Well, if you go back 10 years or so, the question you had to ask was ‘What can technology do?’

Today, the question is ‘what do you want to do?’

Or more accurately, what does your customer want to do, because increasingly they're in control.

So, what's emerged over the last couple of years is a digital toolkit, that lets you make things better for customers.

And these same technologies can streamline internal processes as well.

This is shifting the landscape in all sorts of industries—not just online businesses like Amazon or Airbnb.

Let me give you an example: Beds.

Yes, that's right, beds.

I was talking to a Westpac customer in Campbelltown recently.

His name is Stephen Morrison and he's here today.

Stephen and his wife Christine run *Best in Beds*—they make and sell bedroom furniture.

Before we met, I have to admit I thought a traditional company like *Best in Beds* would have a web presence ... and that would be about it.

But Stephen told me technology was having a huge impact on Best in Beds.
It was:

changing the way customers researched their products,

changing the way they promoted themselves,

changing the way they sold their product,

changing the way they sourced materials,

changing the way they managed inventory ...

Changing everything.

In short Stephen and Christine are seeking to use technology to maximise their existing comparative advantages, and thanks to technology they now believe they can compete with the bigger chains.

And I have to pause here and say, if you need to revamp your bedroom or want a better night's sleep, you should take a look at what they have to offer at www.bestinbeds.com.au. And they deliver nationally!

So for any business using technology to build its competitive edge, the critical question is:

‘What are our comparative advantages, and how can we use digital technology to reinforce them?’

At Westpac, nearing the start of our third century of business, we've asked ourselves a more pointed question:

‘What changes do we need to make to ensure we're around for another 200 years?’

As it happens, this is a timely question, because the banking sector is in the midst of the most profound transformation since deregulation in the 1980s.

Since the Global Financial Crisis, we're operating in a new world.

- Customer expectations have changed, with people rightly demanding more convenience, better service, and greater transparency.
- Regulatory expectations have changed as well, with increased prudential requirements, and zero tolerance for poor conduct and culture.
- And competition has changed, with new and existing players from a number of sectors looking to disrupt banking.

It's a lot to adapt to. And a lot of competing priorities to juggle.

At Westpac we think the secret is staying true to our founding 'service' ethos—that of supporting the economic progress of Australasia.

If we focus on helping more of our customers achieve their potential, that will help the nation at large to adapt to the demands of a modern, prosperous, and innovative economy.

And, by extension, that will make the Westpac business sustainable.

Sustainability is something we talk a lot about at Westpac.

Just last week we were once again recognised by the Dow Jones Sustainability Index as the most Sustainable Bank in the World.

But sustainability is itself a by-product of our peoples' dedication to the company's founding purpose:

Progress and Service.

That is what I mean when I talk about a third century bank.

In more practical terms for Westpac, being a third century bank is all about:

- Putting customers first
- Rising to the challenge of higher community expectations
- And maintaining a strong bottom line.

Sounds simple, but a company like Westpac is large and complex. So, how does a bank with more than 40,000 people deliver on these goals?

Our approach has been to launch a program we call the Service Revolution, which is based around five priorities.

Service Leadership

The first of these priorities is to be recognised as one of the world's great service businesses.

Unfortunately, the current reality is that when most people think about service leadership they don't always think about banks.

They think about the likes of Amazon ... or Disney ... or JB Hi-Fi... or Ritz Carlton.

There's a reason for that.

For too long, banks fell into the trap of thinking they were like packaged goods companies, selling mortgage products, rather than service businesses helping people own the home they want ... and that kind of thinking led to the GFC.

Thankfully this is starting to shift. Not long ago, Matt Janssen, who is one of our bankers with BankSA in Adelaide, met a professor who was moving from the UK to work at the local University.

They got talking about where he and his family were planning to live. But rather than talking about mortgage rates, Matt offered to put him in contact with a local real estate agent that he knew.

As a result, the professor found his dream home before it even went on the market. And BankSA got a very happy and loyal new customer.

Now many banks are falling into a new trap—thinking that service leadership is all about their digital offering.

At Westpac, we think differently.

We believe that the foundation of service leadership is our people, and their genuine dedication to helping our customers prosper and grow—and that technology is an important enabler that our people use to serve our customers better.

After all, there are plenty of nice hotels in the world, but it's the quality of personal service and human connection that makes Ritz Carlton *Ritz Carlton*.

The real test of service leadership, of course, is to win more customers, so we've set ourselves two targets:

- First, to add over 1 million new customers over the next few years
- Second, to grow the depth and breadth of our customer relationships—as measured by an increase in the number of products per customer.

These are ambitious targets, especially in combination—and they're targets we're happy to be judged on.

Digital transformation

That leads me to the second of our priorities—to digitally transform the bank.

I spoke earlier about the economic impact of new technologies.

For a bank like Westpac, the impact of technology is already dramatic.

More than 4 million retail and business customers are now using our online banking system, Westpac Live—which Forrester Research recently rated as the best mobile banking app in Australia, and the second best in the world.

And more than 350,000 customers now use their fingerprints to log in to mobile banking—another world first.

Technology is also changing the look and focus of our branch network.

Our latest branches offer 24-hour lobbies with coin counters, rolled coin dispensers, and the ability to deposit cash and cheques directly into Westpac accounts—whether you're a customer or not.

These branches are also 25-to-30 per cent smaller on average, as the focus shifts from transactions to high-quality conversations with our people.

Thanks to video conferencing, so far more than 20,000 customers have been able to visit their local branch and speak live to an expert in business banking, financial planning, or other specialties.

And by using our data better, we've pre-approved more than \$30 billion in limits for our small business customers to help them grow their business.

If you're one of those small business customers, ask your banker about it—because they can now have the funds in your account in around 48 hours.

To put that in perspective, forty-eight hours shaves about three weeks off the usual time to get a loan.

And it saves our bankers around 12 hours of work on each deal—not to mention an enormous amount of paper shuffling.

Changes like these will help us drive our expense-to-income ratio down below 40 per cent over the next three years—while simultaneously improving service.

Not so long ago, a statement like that would have sounded, shall we say, 'aspirational'—saving cost and improving service were seen to be in conflict.

But now we can improve service, increase revenue, lower cost and reduce risk—all at the same time.

That's the potential of these new technologies.

Performance disciplines

That leads me to our third priority: performance discipline.

At Westpac we aim to be one of the best performing banks in the Asia-Pacific region—with a return on equity above 15 per cent.

Those of you who've followed the regulators' push for more capital and more liquidity would realise that this is a stretching goal.

So how do we plan to achieve this?

At our strategy day last week, we announced plans to invest 20 per cent more per year in service, growth, and productivity initiatives.

By 2018, two thirds of our investment spend will go on these type of initiatives—up from 44 per cent last year.

Much of this will go to new technologies like ... the Customer Service Hub, which puts all the information we have on our customers in one place—making it easier for our people to give our customers the quality of personalised service they deserve.

And our new wealth management platform, BT Panorama, which lets customers—and their advisors—have full digital access to their wealth and insurance information, as well as linking it to their banking.

We have also announced an efficiency program, with an annual savings target of \$270 million a year.

This efficiency program will offset our increased investment in service, growth, and productivity initiatives—helping to balance our goal of building the long-term value of the bank, with the discipline of delivering short-term performance.

New growth highways

Our fourth priority is also important to sustaining performance—building what I refer to as new growth highways.

There's been a lot of talk recently about slower growth in the Australian economy. Some even suggest we might be heading for recession.

We don't see it that way.

Corporate balance sheets are in good shape.

Interest rates are low, and the lower dollar is already having a positive effect on a number of industries like tourism, education, and retail.

And although it's likely that GDP growth will be subdued for some time, there are also a number of opportunities for new growth.

The big story is the shift to a service-led economy, rather than a resource-led economy.

For example, did you know that service exports are now more valuable than exports of iron ore, or coal, or natural gas?

We should expect this trend to accelerate as Asia's middle class grows from one billion to three billion people—especially if the Australian dollar remains low.

In fact, the rise of a huge middle class across Asia will create a Services Boom for innovative and competitive companies that will last far longer than the initial phase of the Mining Boom.

That's why we're committed to supporting the Australian economy's 'growth highways': areas where growth rates will be much higher than nominal GDP.

We see enormous potential for growth in small and medium enterprise, in wealth management, and in the rapidly growing trade, investment, and people flows between Asia and Australia.

We're heartened that the new Prime Minister feels the same way.

In one of his first statements, he talked about a nation that is agile, innovative and creative. A nation that sees technology-driven disruption as a friend of growth. We agree.

Westpac has long supported the idea of unleashing economic potential – the potential of our customers, our businesses and the nation. As I've argued previously at this forum, that means we need to focus on issues like increasing workforce participation, improving infrastructure, and building the knowledge base of our workers.

Business needs to support this next chapter in our economy: by working with the Government to break down barriers to growth, to reduce friction, and to build an agile Australia.

As an example of this, I mentioned earlier how we have pre-approved \$30 billion in limits for our small business customers, through a new tool we call LOLA.

We're excited about the difference that this can make for our customers, and Australia overall, since we have links with nearly half of Australian businesses.

So far we have lent more than \$270 million through LOLA.

That's a big boost for a sector that's vital to Australia's employment and productive capacity.

Likewise, the aging of the baby boomers and the legislated growth of superannuation means demand for wealth management services and impartial advice will continue to grow.

So we're investing heavily in these areas, to ensure we stay relevant and competitive as our customers' needs change over the next few years.

Workforce revolution

Our fifth and final priority is essential to meeting the first four, because none of the ambitions I have talked about can be met without great people. We call it the Workforce Revolution.

We already have a high quality workforce, with some of the best trained bankers in the business.

Thanks to the work of thousands of our people leaders, engagement scores continue to be among the best globally.

I'm confident and proud of the quality of our management team and our ability to execute our strategy.

But given the scale of change underway, there is still a lot of work to do.

Our customers are increasingly demanding more flexible and agile service. To help them, our people need to be flexible, agile, and engaged.

As part of this, we're changing the physical layouts of our workplaces to reflect the way customers are interacting with us and to promote agility and teamwork.

By the end of this year, more than 10,000 of our people will be working in an agile environment.

And earlier this year, we announced a policy designed to ensure nearly every role could be managed flexibly—with many thousands of our people already working flexibly from the office, their home, and most places in between.

More recently, we've worked with the Finance Sector Union and our employees on a new kind of Enterprise Agreement.

Normally, rewards are based on sales targets.

Under our proposed three-year Enterprise Agreement, we want to reward our people for behaviours like outstanding customer service instead of sales.

That's a first in our industry—and it's an innovation in keeping with our higher purpose of progress and service.

At the same time we're continuing to invest in the leadership and technical skills of our people, with more than half of our bankers finishing our Best Banker program, which gives them an externally recognised Professional Qualification.

It's steps like these that will ultimately help make Westpac one of the world's great service companies.

Conclusion

So, those are our priorities—let me wrap up with a final observation.

We are living in *amazing* times.

The impact of structural changes in the economy and new technology means that over the next few years all of our businesses will be affected in some way.

And despite all the change we've seen in the last decade, I think we're just at the start of it.

So how should we respond? That's the challenge.

For Westpac the changes are new but the response is the same.

Over 198 years, we've thrived because we were willing to confront great change without losing sight of our higher purpose.

We've been willing to adapt, while remaining true to our goal of advancing the progress of the Australasian economy and its people.

So while 'disruption' may be the word of the moment—the new black, if you will—we think *service* is the colour for all seasons.

Thank you.