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“Leading the digital bank of tomorrow”

Australian Banking & Finance Leaders Lecture Series

Friday 13th February 2015

Sydney

Introduction

Thank you Mahesh for your introduction and good morning everyone.

As we know, our industry is going through a significant period of structural change. There are 3 critical forces driving this:

Firstly we have seen an unprecedented volume of regulatory change, both globally and domestically, and the pace and intensity of this change shows no sign of abating.

Simultaneously this rapidly changing regulatory world comes at a time when there is continuing need for investment in market leading banking solutions and intense competition from the established players, all of whom are looking to protect their positions in a dynamic and fast changing market as well as new players.

Finally, and perhaps most importantly, there is the digital revolution imposing disruptive change to the industry – a phenomenon driven by the customer. For established players, this potentially presents the biggest threat, opening our industry to new competitors, some which are just starting up and some of which are already formidable players in their core industry. It also offers opportunities for businesses that can think on their feet and respond directly and promptly to meet customers' needs.

So as the new rules of banking intersect with the new world of banking, today I will touch on how this is impacting the world of retail banking, including how we interact with our customers, how our customers want to interact with us, and what this means for senior leaders like myself.

As Mahesh mentioned, I lead a team of more than 7,000 people who have the hearts and minds of our customers at the core of everything they do. But that hasn't happened overnight. When I got the call in 2012 to lead the next stage of Westpac's retail bank transformation, I knew I couldn't say no – it's exciting to step outside your comfort zone.

At that point it was 4 years after Westpac implemented its “Local” strategy to overhaul our front-line branch network. This has seen us move from being the fourth-placed retail bank among the Big Four banks to now first in Main Financial Institution customer satisfaction. On 8 April 2017 Westpac will celebrate 200 years as Australia’s first bank and first company and we also aim to celebrate being recognised as Australia’s best retail, business and wealth bank.

Leadership and Change

We all know that as a general rule people don’t like change - therefore it’s critical to have courageous leaders who can lead and, indeed, thrive in a rapidly changing world and importantly can anticipate change to capitalise on the opportunities. For Westpac with our nearly 200 year history, we must in the words of our new CEO, Brian Hartzler, “think and act like a 200 year old start-up”.

Embracing challenge and change has been a theme throughout my career. From my early days as a junior lawyer being thrown in at the deep end in the heady ‘80s - to the decision I made some 20 years later to move beyond a legal career to lead BT Financial Group’s customer service division of 500 people at a critical point of its integration with Westpac.

I like to think about it in the words of Benjamin Zander, the chief conductor of the Boston Philharmonic Orchestra, who speaks of looking at the world through the lense of possibility. Ben’s other life is as an inspirational speaker and together with his wife has written a book titled “The Art of Possibility”. The key premise of the book is if we take a different perspective on the circumstances we face, we can see a world of possibility.

Ben tells a story of two shoe salesmen who at the turn of the last century are sent from their shoe factory in Manchester to Africa to look for new markets to sell shoes. After some weeks the first shoe salesman sends back a telegram:

“SITUATION HOPELESS **STOP** NO ONE WEARS SHOES”

The other writes back triumphantly:

“GLORIOUS BUSINESS OPPORTUNITY **STOP** THEY HAVE NO SHOES”

With over 6 million customers, more than 680 branches, turnover of more than \$5 billion a year, and if it was listed, the business would be in the ASX top 10, for me as a leader Westpac’s Retail Bank is a world of possibility.

On any measure, this is a very big business to transform and requires leadership not only from the top but also at the local level. It starts with empowering our frontline bankers who understand their customers and communities better than anyone in Head Office.

At Westpac, we began this journey when we started our Westpac Local strategy which had at its heart reintroducing the role of the bank manager in 2008, empowering them to make decisions to help their customers and communities.

My role over the past two years has been to nurture our customer-centric culture in a way that fosters innovation to help our customers and our people in a period in which there is constant change. I find that it is critical to look at every change through the eyes of our frontline bankers, who are closest to our customers. I visit many of our 53 regions every year and on each visit take time to meet with a group of high performers to understand how they are embracing our new initiatives and also what more I can be doing to support them and our customers.

At Westpac, our people have a great starting point, which we have encapsulated in one clear and unambiguous sentence: our vision is to be one of the world's great companies, helping our customers, communities and people to prosper and grow. We know this resonates with our people because in our employee engagement survey 97% agreed they are clear on how they personally contribute to Westpac's vision.

Helping our customers

To achieve our vision, we must harness all of the possibilities - the digital world may be daunting but there is no doubt it provides us with the opportunity to provide customers with more choices and an even better banking experience.

We also need to learn the lessons of how such innovation has changed businesses from a customer's perspective. For instance, ten years ago it would have seemed inconceivable that the biggest seller of books would be Amazon and the entire music industry would be turned on its head with innovation from Apple's i-Tunes to Spotify and Pandora. At the same time we have seen the disappearance of video stores, music outlets and well-known branded book shops. In each of these examples the disruption has been embraced and led by customers who find and demand ever increasing value from business.

The knee jerk reaction is that this won't happen with banking, that digital developments will, by and large, be benign, and that new entrants won't threaten us as the regulators won't allow it. I disagree. Customers will essentially choose whom they engage with for their banking needs based on a complex array of needs and perceptions - whether they choose to bank with non-traditional players is entirely up to them.

The good news is that despite these new players, many people still want to deal with their bank. For example, in the Deloitte's 2014 Mobile Consumer Survey 73% of respondents said that the institution they trust to facilitate mobile payments is their bank. ⁱ

As Australia's first company, Westpac has a rich heritage and ancestry - our customers are connecting with us because they know and trust us. However, this doesn't necessarily guarantee they will stay with us in the future.

In trying to "think and act like a 200-year old start-up" as we face rapidly changing customer demands, we need to use all of our experience, knowledge and capabilities in new and innovative ways and then move quickly to meet these demands.

Innovation, of course is not new to banking and certainly not to Westpac. We were the first to introduce ATMs into Australia, the first major bank to offer online banking for customers, and the first to launch a dedicated iPad banking app. But it is the pace of innovation, change and potential disruption today that is taking everyone by surprise. I'm continually amazed at just how quickly digital is transforming how customers and businesses interact.

- As a country, we have one of the highest adoption rates for smart technology in the world.
- For most of us in Australia – our SmartPhone is the first thing we reach for in the mornings
- And 55% of us have used mobile banking on SmartPhonesⁱⁱ
- At 64% Australia has the highest proportion of debit card “tap and go” transactions in the world

In banking, our customers are absolutely the ones in control. And I know it's the same for many of you with your businesses. Customers can now self-serve at times and locations more convenient to them, whether for flights, music, and other forms of entertainment.

Customers now have very different expectations around ease, convenience, speed, availability, security. They judge their banking experience not by their experience with other banks but with other industries.

The banking industry needs to respond; otherwise new entrants will snap up the opportunity. And once lost, that ground is very hard to make up as we have seen from other sectors. .

At Westpac, we're actively responding and providing our customers with banking that just happens, anytime, anywhere.

Every single innovation that touches our customer must answer one simple question – What is the customer problem we are trying to solve? – And sometimes problems our customers did not know they had.

A great example is our Travel notification and ATM locator App, which is a personal favourite of mine. A constant pain point for customers is when they head overseas and haven't notified the bank. Our security measures put a block on the card as soon as it is used overseas to prevent fraud. Not anymore. Our travel notification app sends an alert to customers as soon as they enter an international airport to ask them if they are going overseas to which they can reply and we do all the work from our end. On top of that, as soon as they land in another country the ATM locator app provides them with a list of Westpac's global alliance ATMs (the largest network of the major banks) that are close to them, so customers won't incur any withdrawal fees – making their life easier.

When we decided to re-vamp our existing online banking platform we could have just given it a fancy makeover. Instead we looked at everything from the beginning. How people use smartphones and tablets, for example, and for the tablet in particular opted for a whole new approach utilising “drag and drop” to make payments and transfers so much easier and simpler.

We also gave customers improved self-service features like the ability to change ATM limits, request a mortgage top up and look at three years of statements in an instant.

The result is Westpac Live - over 3 million personal customers have been successfully migrated to the new service and we are well underway to moving over our 800,000 business customers this year.

Westpac Live won Money Magazine's 2015 Best of the Best Innovation Awards and has also been recognised by Good Design Australia – Digital and Online Design.

And now you can sign on to Westpac Live on your i-Phone using your fingerprint and we are first in the world to offer this on the Android Samsung Galaxy S5.

Other innovations include Westpac Get Cash which enables customers to withdraw cash from a Westpac ATM without a card by having a code sent to their phone, and Mobile PayWay which enables small business customers to accept credit and debit card payments with their smartphones anywhere, anytime.

I am especially excited by how our frontline bankers have embraced the opportunities from these innovations. Through our Digital Ambassador Program, they can showcase the solutions to customers. One recent example in Brisbane, a customer urgently needed to get cash to his daughter in Adelaide. Our personal banker showed him how to download and use Get Cash on his smartphone and he was able to seamlessly send the SMS code to his daughter in Adelaide who received the cash from an ATM within 15 mins of the customer arriving in the branch.

In December alone we processed more than \$10 billion through Westpac Live. Of this, 40% was transacted through mobile and tablet. We have also sold over 70,000 products in Credit Card, Personal Lending and Deposits through Westpac Live since launch.

Mobile banking is also not slowing down. Over half of our digitally active customers are using mobile banking and doing more than \$50 billion worth of transactions a year.

Helping our communities

These are profound changes that are in turn having a profound impact on the way we run a bank. With the pace of digital innovation and customer adoption it is only right to ask why do we need a retail footprint? Are our retail branches doomed to the same fate as Borders or Blockbuster stores?

Not in our view. To paraphrase Mark Twain “the reports of the death of the branch have been greatly exaggerated”. We believe that the branch will continue to play an important role in the lives of our customers. But not in the traditional manner.

This was clear just over two years ago when we launched our first new Bank Now branch – in Sherwood, Queensland. And over this same 2 year period the digital revolution has accelerated – think wearable technology such as smart watches, mini-Tablets, NFC tap and pay capabilities on your smartphone.

Put simply, the age of simple transactional banking in a branch is quickly coming to an end.

By that I mean depositing and withdrawing money over the counter. We know Australia doesn't work 9 to 5 and neither do we. In the lobbies of our Bank Now branches we have Smart ATMs, Cash Exchange and Coin Deposit machines that are accessible 24/7. These are providing customers with fast and convenient transactional banking solutions and replacing the need for traditional “teller” roles, allowing us to re-deploy and re-train these staff into the advisers and personal bankers of tomorrow.

Through these devices we are able to provide self service capability that adds more value and saves time, for example when depositing a cheque, the customer's ATM receipt also contains an image of the cheque on the back – something they couldn't get before. We have seen a fourfold increase in the use of our Smart ATMs for deposits. The next logical step for us is to develop ways for our customers to submit cheques themselves, via scanner or smartphone, eliminating their need to even use an ATM!

As I travel around the country, I have spoken with many customers who have shared with me just how surprised and delighted they are by the design, technology, and self-service capability of our Bank Now branches.

At times the customers who are embracing this new world of branch banking can surprise me. For example, when we opened our Ellenbrook Bank Now Branch in WA, our very first customer was a 93 year old gentleman who was very keen to be the first customer in the branch and the first to use the new self-service machines!

Over the past two years we have invested over \$100 million in 79 new style Bank Now branches and will transform a third of the 680-strong Westpac network across Australia by 2017.

Of course, due to the vast geography of Australia we can't be everywhere in a physical sense. The digital revolution and the opportunities it offers through new services and partnerships are actually helping us to overcome this tyranny of distance.

Our Bank Now branches are smaller but more efficient. And as well as changing shape, they are changing location as we look to locate them where our customers go to meet a range of needs. In some cases that means out of shopping centres so that we can make the most of our 24/7 automated services that are so important to the Australian night-time economy.

It means being in new areas of population growth. It means supporting rural and regional Australia with "regional hubs" where customers can experience a "one stop shop" of a Bank Now branch, business banking centre, specialist mobile bankers and the latest high-speed and high-definition video-conferencing.

It means being smarter about our face to face presence in rural and regional Australia.

To date, we have invested \$23 million in creating this platform across rural and regional Australia and I'm pleased to announce today that we plan to invest another \$40 million over the next two years to make sure our customers in these areas across Australia have access to the best possible expertise.

We also plan to upgrade more than half of our regional branches to Bank Now by 2020.

There will be more change as we create a long term sustainable approach to supporting our customers in these areas.

Bank Now is really about integrating our physical customer experience with our digital customer experience and our latest iteration of this is our Connect Now service, high definition video-conferencing which enables customers to access

expertise and advice. Importantly Connect Now builds off our Westpac Local model as it is still critical that we have local bankers who identify when a customer needs access to more specialised expertise whether it is in business banking, trade finance, FX or financial planning. Today customers across Australia can visit over 240 branches and with their local banker be connected to experts in a central hub via a high quality video link that replicates the face to face experience with features such as document sharing. And this benefit is two-fold – not only have we opened-up access to our experts to thousands of customers; our local bankers are learning about the difference that the right expertise can make to their customers' lives.

In practical terms, the biggest impact of this strategy is on our customers in rural and regional Australia. No longer do our customers in say, Karratha, WA, have to wait for the twice yearly visit of a financial planner to the local branch to obtain the wealth advice they need. This is now on hand every day through Connect Now.

By the end of this year, a total of 148 rural and regional branches will be Connect Now enabled. Connect Now is also integrated with our national network of over 310 local business bankers, more than 300 personal business bankers – which combined is Australia's largest network of branch based business specialists - and over 850 commercial relationship managers.

It is easy for us to trumpet these achievements. The best judges are our customers as well as those in our industry partners. Our efforts to transform our customers' banking experience have been externally recognised, most recently receiving the Roy Morgan Major Business Bank of the Year award, the AB+F Corporate and Business Banking award for business banking at branches, and more broadly we lead the major banks in Main Financial Institution customer satisfaction.

Helping our people

I recently heard global futurist Anders Sorman-Nilsson say something that has stuck with me since: And I quote: "The key thing for companies tomorrow is to balance a digital mind with an analogue heart".

At Westpac, this is absolutely core to our strategy. We are a people business with exactly those goals in mind which brings me to the last part of our vision – helping our **people** prosper and grow.

A leading indicator of customer satisfaction and deeper relationships with our customers is the ease with which a customer can achieve their financial goals in partnership with us. Critical to this is the ability of our frontline bankers to provide the right level of expert advice.

Improvements in digital technology are changing customers' expectations when they do interact face-to-face. They expect staff to be faster, more capable and more informed. They want real advice, and a holistic view of their banking and financial needs.

When it comes to those important decisions in life, such as buying a home, setting up a business or planning for your long term financial future, customers want to talk to someone who knows them, will support them, and join them on their journey - they want access to a professional banker.

Technology can make our customers lives easier but it never replaces the relationship, the human interaction is paramount for us. We are investing heavily in our people and equipping them to provide the best expertise they can.

This began with our Westpac Local program, which I touched on earlier, returning decision-making and responsibility to bank managers in 2008. Since then our bank managers have embraced their role as the local CEO, and they recognise that the great design, technology and self-service opportunities helps them to make a difference in the lives of their customers and communities.

We passionately believe in having the best most professional bankers in the marketplace. Our Best Banker program is one of Westpac's largest ever investment programs for frontline bankers, providing access to externally recognised professional qualifications, training tools and support to build their capability, skills and careers.

The Best Banker program has won the Marshall Goldsmith Award for Talent Development, at the 2014 Australian Human Resources Institute Awards, and the Australian Training Awards named Westpac Employer of the Year for the Best Banker program.

Over 1,000 professionally accredited bankers have graduated and this program has materially lifted both the expertise available to customers and the feeling of empowerment of our front line.

Conclusion

Leading in this new world of banking as it is shaped by the new rules of banking requires courageous, determined, clear and positive leadership at every level from our Group CEO, Brian Hartzler to our local CEOs, our bank managers. We need leaders who aren't afraid to make hard decisions, can anticipate change and always put the customer first.

Leadership is about belief, team spirit, a shared vision and a commitment to do the right thing – all of which have been core to Westpac’s DNA for nearly 200 years.

As Westpac heads towards our third century in 2017 we will continue to look for all the possibilities - ways to innovate and evolve, to lead as well as listen and to help and support all Australians to prosper and grow.

The quality, enthusiasm and engagement of our Westpac people give me great confidence in our prospects. This is an exciting time to be in retail banking and I’m proud to be leading Westpac’s retail bank at this critical time in our history.

ⁱ Deloitte Mobile Consumer Survey 2014 – The Australian Cut: Revolution and evolution

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