



Jason Yetton, Group Executive, Retail & Business Banking

“The Innovation Imperative”

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Introduction

Good morning everyone.

I would like to acknowledge that this event is being held on the traditional land of the Gadigal people of the Eora nation and pay my respects to elders both past and present.

Thank you Andrew for inviting me to speak today at what is set to be an interesting, informative and stimulating forum around what I would term “The Innovation Imperative” in Financial Services.

I thought I would context my speech by repeating a well-known saying, frequently attributed to the Chinese:

“May you live in interesting times”

Now some of you will know that this is not actually a Chinese saying, but rather an English expression, purporting to be a translation of an ancient Chinese curse. The closest authentic approximation is the proverb, “it’s better to live as a dog in a time of peace, than a man in times of war”.

Not being a true scholar on these matters, I don’t have a view on that either way. But I do know that for most people, to live in “interesting times” is not perceived to be a good thing.

Pick up a newspaper, or turn on the television, and you could be forgiven for thinking we do, in fact, live in “interesting times”.

“Interesting times” are fraught and uncertain.

“Interesting times” are an anathema to progress and reform.

In short, “interesting times” are considered to be negative and bad.

What I want to do this morning is outline why there's good reason to be upbeat about Australia's future, and the opportunity for banks and financial services companies to innovate, grow and succeed in the decade ahead.

The times aren't so much "interesting" as they are changing, and in many ways they are changing more rapidly, and more profoundly than ever before in our human history.

At Westpac, this change, opportunity and potential, has prompted our new CEO Brian Hartzer and the Executive team to re-visit our vision and strategy, and rally the whole organisation around what we call "The Service Revolution".

In short, The Service Revolution is about building a bank:

- That sees its success through the eyes of our customers' success;
- That aspires to being one of the world's great service companies;
- That thinks and acts like a 200 year-old 'start up' company; and
- That is courageous, lean, agile and flexible – and is a magnet for talented leaders and people.

We recognise that such aspirations require a true innovator's mindset.

We know we have to challenge entrenched thinking and take risks otherwise we will lose out to more nimble competitors in an increasingly commoditised world.

Recent history is replete with examples of big, well-established brands and businesses being out-smarted and out-maneuvered by upstarts that simply did a better job of anticipating how consumer behavior was changing and using new technologies to respond to a market need.

Recognising this problem is one thing. Doing something about it is an entirely different matter.

Today I would like to:

- Outline the profound changes that are disrupting everything from the way we live and work, to how we best serve our customers' needs;
- Identify some of the opportunities for Westpac - Australia's first bank and oldest company – to grow and succeed as we enter our third century of business; and
- Outline the cultural change required to unlock this future potential for growth and success.

Change

Let's start with change. We are in a period of profound change – economic change, demographic change, technological change, regulatory change, customer behavior change. Seismic change is occurring everywhere... and it's occurring fast.

The global political landscape and economic power base is changing. 60 per cent of the world's entire population lives in Asia (4.3 billion people). China and India together account for 37% of the world's population. The combined GDP of Asian economies led by China and India is expected to exceed US GDP by 26% by 2020.

Capturing the trade, capital and people flows from the Asian century will be critical to Australia's future growth.

Australia is changing – the mining investment boom is now well and truly behind us. The era of the automotive manufacturing sector is rapidly approaching its end. Every business and industry is transforming – old industries are declining, new industries are emerging, and innovation and disruptive technologies are fundamentally challenging the way all industries communicate and do business with their customers.

Our population is changing too and so are our needs. By 2055, Australia's population is projected to grow to nearly 40 million and 60% of this growth is expected to come from immigration – mostly of highly-skilled and affluent people. Our population is ageing. In 2055, 40,000 Australians are expected to be aged 100 or over and the life expectancy of men and women born today are forecast to rise to 95 and 96 years respectively. This will present challenges for our nation, not least of which will come from declining work-force participation.

These changes are occurring in the midst of what others have termed “the second great machine age” of the modern era. The first was the Industrial Revolution driven by the steam engine. This one is being driven by the microprocessor and that small, inconspicuous-looking device we simplistically refer to as a phone, but in reality is so much more and is the centre of everything we do, each and every day.

We are seeing break-through developments in cognitive and artificial intelligence (IBM Watson); driver-less cars (GOOGLE); payments disruptions through Cyber Currencies (BITCOIN and BITCASH); and mobile payments such as Apple Payway, SQUARE.

Digitisation, smart technologies, cloud computing and big data, offer exciting and potentially limitless applications. But they also bring with them some thorny issues too. Technological progress will leave many people behind – and render many jobs obsolete. This change will be difficult and unpleasant.

Our customers' needs and expectations are also changing. The use of technology has empowered customers like never before and has put them in control. Their expectations of ease, convenience, speed, personalization, security and mobility has changed forever, not because of Big Bank Competitors but because of comparators – think Google, Amazon, Apple, Uber, Disney, and AirBnB. Customer experience is the key to success.

Regulation and expectations of banks are changing too. We are operating in the “new rules of banking”. Around the world, governments and regulators are seeking to restore public confidence, credibility and trust in the banking sector along 3 dimensions – consumer protection, well-governed institutions, and a safe and reliable financial sector.

Conduct, capital, knowing your customer and risk culture are integral components to success in the new world of banking.

Opportunity

But with change, comes opportunity.

To quote Charles Darwin “It is not the strongest of the species, nor the most intelligent, that survives. It is the one that is most adaptable to change.”

At Westpac, we know we cannot rely on our heritage, our brand reputation or our current business strength to stay ahead of the pack.

For us, the Service Revolution is all about innovating to find better ways to help our customers succeed. And that thinking – that customer obsession – informs everything we do.

Let me give three examples of opportunity that comes with change.

Personally I'm particularly excited by the opportunity in business banking - after all, it is Australian businesses that create jobs, drive economic growth and – through their innovation and enterprise – create and deliver the products and services that underpin our national wealth.

At the release of the 2015 Federal Budget, the Treasurer spoke of the importance of small businesses to the progress of the Australian economy.

We agree. Australian Business is the real engine room of the economy and we all need to do more to stimulate business confidence and investment.

One way we are trying to help is by providing small businesses with fast access to finance to enable them to invest in their business.

That's why we are offering small business customers with \$30 billion in pre-approved lending facilities through LOLA – our Live Online Lending Application system.

LOLA is an example of making technology the servant of the customer – rather than the other way around.

It is a purpose-built tool that saves customers hours of time previously spent filling out applications (with information we generally already had) – and then waiting days for approval and access to funds.

Since December last year, more than 1,200 loans worth a total of more than \$100 million have been immediately approved to Westpac's business customers through LOLA – based on a pre-approved credit assessment based on their cash flow and transactional information.

Another example.

A year ago, we decided to try and make it easier for all our 700,000 business customers across Australia to get direct access to our Business Banking experts.

We asked ourselves:

How can we provide our customers in places like Karratha, Shepparton, Alice Springs, Hobart and Gladstone with instant access to the best of our expertise – across the Westpac Group?

So last year, we launched Connect Now – a high-speed, secure, video conferencing service that provides customers access to financial experts without having to travel from suburban or regional areas to metro areas.

Currently over half of our branches are linked to more than 100 experts in home and business lending, trade and equipment finance, business insurance, foreign exchange, financial planning, and transactional payments solutions. These experts are based in our Connect Now hubs in Melbourne, Perth, Sydney and soon Brisbane.

Since its launch, they have provided one-on-one advice to more than 10,000 customers. In May, we helped more than 2,300 customers this way – with a “one and done” virtual appointment with their local banker and a Connect Now expert. Our entire network will be Connect Now enabled by 2016 breaking down the traditional barriers of distance and local expertise for customers in regional and rural Australia in particular.

And we are now also expanding Connect Now into Asia, to help Asian business customers looking to invest, trade or relocate to Australia, and connect with the right banking expertise in any geography.

But it's not the technology that is the centre of our success with Connect Now. It's our people – and having the right “pitcher and catcher” model there for customers.

Let me explain.

Digital can make our customers lives easier but, in our opinion, it doesn't replace our customers' desire for having long-lasting relationships.

Because of this view, we are investing heavily in our people, property and technology to enable them to provide the right service and expertise – 24 x 7, wherever and whenever they want.

This began with our Westpac Local program in 2008, returning decision-making and responsibility to Bank Managers and putting local business bankers and personal banking experts back into branches.

Westpac Local was followed by our 'Bank Now' Programme.

Recognising that customers don't bank 9 to 5, we wanted to change the branch experience to be 'always on' for customers and Bank Now developed a 24 hour, 7 days a week, self-service lobby with smart machines to enable customers to deposit or withdraw cash, cheques, coin etc. whenever it suits them.

Our 83 Bank Now branches (12% of Westpac network) don't have tellers or a teller line. They are open plan, staffed with expert bankers, and use digital marketing and tablet technologies to allow the customer to have a seamless conversation with a banker about all their financial needs. They are also staffed for extended hours of 8am to 6pm through the week and 9am to 1pm Saturdays recognising that we need to be available for customers when it is convenient for them.

While customers will increasingly do all their transactions via digital, we believe they will continue to look to Westpac for help with the important decisions in their life – buying a home, starting or

growing a business, preparing for the best in retirement, protecting and growing their wealth. When dealing with us, they rightly expect access to qualified, professional banker or financial planner – that will look after their best interests. Through our Best Banker Programme, every single Westpac banker will hold an externally recognized, professional qualification by 2017.

We have invested around \$10 million per annum and partnered with professional training organisations such as Kaplan Professional to develop our people's capability and skills as part of the Best Banker Programme. So far, more than 2,500 bankers have graduated with externally-recognised, professional qualifications and we expect this to grow to around 4,000 by the end of this year.

Westpac is investing in every channel, and this also includes our branches. Yes, ladies and gentlemen, I said it. Even in a digital age, we believe many customers still have an “analogue heart” and are looking for help and advice from local bankers in branches. The key is to provide customers with a choice – of channel, of how, where and when they want to bank 24x7. There is no channel conflict in the eyes of our customers. Indeed the vast majority use all our channels.

Potential

With an abundance of opportunity for change, coming up with creative ideas is often the easy part. Originality, relevance and value to customers is more difficult.

As a parent, I'm constantly reminded of the need to stay current and relevant – and keep up with the pace of change as far as my three young boys are concerned.

At the ages of 12, 9 and 5, they are true digital natives – they have all grown up with iPhones and iPads, and know instinctively how to operate in a digital world whether this be for school, entertainment or social purposes.

Life and business is like that now. As leaders that have grown up in a different age, we will need to change, and strive for relevance and success in a rapidly changing world where our people work in completely different ways to the past.

Historically banks had the luxury of saying to customers that you can't buy that house or car until you come to us first, fill in the paperwork, let us complete a risk assessment. Then we will decide whether to take you on as a customer – that's not efficient, it's not 'service', nor is it relevant to our customers' expectations in a digital age.

From my perspective, disruptive innovation in banking is about having the courage and bravery to disrupt ourselves and our established patterns of doing business. It's about moving away from the status quo of what we do now and completely reinventing the "end-to-end" customer experience – if we don't, someone else will.

The best advice and service in banking will soon happen instantaneously, in real-time when and where customers need it – and more often than not, before they know they need it. It will be about outcomes and context. Banking that just happens – at the speed of life!

Let me give you a few examples of what I'm talking about.

1. Losing your wallet

Each year, nearly two million Australians report that their ATM and credit card have been lost or stolen.

Our solution - 'Get Cash' which enables customers to withdraw cash from any Westpac ATM without a having card by inputting a security code sent to their phone.

Pain point – lost my wallet frustrations and need cash – eliminated

2. Travelling overseas

Now think of our customers who are travelling overseas.

In the year ended June 2014, there were 32.4 million crossings of Australia's international borders.

Often – and nearly always in my case - logistics are left to the last minute for example travel insurance, foreign currency, noting your bank of travel destinations and dates to prevent fraud.

Through our credit card transaction data, we are instantly able to detect that an overseas flight or accommodation has been booked.

As soon as we receive this information we are able to inform the customer of what they need to do to prepare for having a great holiday – for example, let us know of travel dates, request a Global Currency Card, lock in an exchange rate when they want, let them know of access to our fee-free Global ATM Alliance partners in that country and where they are located through our smart app, and information on Travel Insurance etc.

In the case of the global currency card, within three clicks the customer can request a card and receive it within a couple of days. Well in advance of their trip.

Pain point – organising logistics for travel – eliminated.

3. Forgetting my PIN or password

Our customers log into 'Westpac Live' – our online, mobile and tablet banking application about 30 million times a month. About 5% of the time customers forget logins requiring passwords to be reset. Frustrating.

We asked: why should customers have to remember a password or pin when they can logon onto their phone using biometrics.

Our solution: We were among the first in the world to allow customers to logon to Westpac Live using fingerprint through their iPhone, iPad or Samsung Galaxy phone. This is now used by more than 170,000 Westpac customers. And this is growing strongly.

Pain point - remembering pins and passwords - eliminated

Internally – we know innovation is everything – it's a game changer but we also know we don't have all the answers. That's why we made the decision to invest and finance potential rivals through the Reinventure Fund - a \$50 million venture capital fund that will back start-up FinTech business models which Westpac would unlikely to develop organically.

Through our investment in this fund we are prepared to disrupt our own industry.

For instance, we've taken an equity stake in Sydney-based peer-to-peer lender - SocietyOne. Peer-to-peer lenders join borrowers and investors through web-based technology – cutting out the banking intermediaries. I know Founder and CEO Matt Symons will speak with you later today, a session not be missed.

Conclusion

In conclusion, I'd like to explain a phrase our CEO, Brian Hartzler often uses which is at the core of cultural change required to deliver the service revolution:

- "Thinking and acting like a 200-year-old start-up company".

Successful start-ups have three cultural characteristics we wish to foster and encourage through our Service Revolution strategy.

First, start-up entrepreneurs embody a culture of change and innovation. They are passionate that these is a better way, a cheaper way and a different way.

Second, start-up entrepreneurs are completely obsessed with the customer experience and use customer-centric design to solve real problems or create new opportunities for their customers.

Third, start-up entrepreneurs are agile and lean. They move at pace. They have the courage to try things, to succeed ... and fail, fast.

The '200-year-old start up' mantra is our way of reminding ourselves that the main reason why Westpac has survived and thrived for almost two centuries in banking is that we have always been prepared to change and adapt.

Ladies and gentlemen, we do in fact live in interesting times. Indeed, I believe we live in perhaps the most interesting and exciting times ever experienced in Banking and life in general.

It's a new world... one where each of us must fight for success and relevance, every day. In this new world, innovation is an imperative, not a nice to have.

I wish you all a successful and enjoyable conference. There are a number of industry thought-leaders that you will hear from today. I encourage you to learn, steal and borrow as much as you can from them.

Remember that no one owns, what you are about to create.

Thank you.

Jas