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EXECUTIVE KEYNOTE SPEECH

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'Think and Act like a 200-year-old Start Up Company'

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Introduction

Good afternoon everyone.

First, I'd like to acknowledge the traditional owners of the land we're meeting on today – the Wurundjeri people of the Kulin Nation – and pay my respects to Elders, past and present.

I'd also like to say how nice it is to share the stage today with the new Chairman of the APRA, Wayne Byres.

Wayne is extremely well respected in financial circles for the leading role he played in the Basel committee.

And we're fortunate to have a person of Wayne's calibre at APRA.

We're fortunate because, over the next year, the future shape of Australia's financial system will be decided as Basel III reforms are bedded down and the Financial System Inquiry finalised.

Given his background, I suspect that Wayne's insights on the future path of regulation in our industry will be extensive.

So I thought I would concentrate my remarks today on what's going on out there beyond the walls of the financial industry… where the convergence of geopolitical, technological and behaviour changes are creating a new frontier for Australia in the 21st century.

After all, Australia is in uncharted territory:

> Asia has become the driving force of the global economy – and will remain so for decades to come;
>
> Next generation technologies are creating a new way of living that's digital, mobile and always connected;
>
> And peoples' expectations are changing – rapidly and radically.

I'd like to talk to you today about what these disruptions mean … because – as important as the regulatory disruptions within our industry are – the ones occurring in the real economy are even more profound.

‘The Tipping Point’

Let me start with a confession at breakfast this morning, my oldest daughter referred to me to one of my other children as her nerdy father. And she was right..... when I was a kid I was a bit of a geek.

Back around 1980 I was lucky to be one of the first kids in town to get a home computer – an Apple II Plus – and I used to teach other kids BASIC programming.

I found technology fascinating – and also a bit frustrating.

> Fascinating, because of its promise;
>
> Frustrating, because of its limitations.

You couldn’t just sit down with an Apple II Plus and think about what you *wanted* to do – you had to find out what you could do within the limitations of 48K of memory, Applesoft BASIC, and a five-and-a-quarter inch floppy disk drive… for those of us who remember what those were.

Over the years computers got more powerful, and storage capacity increased. But you were still limited by the technical specifications of the machine, or the speed of the network, or the functionality of the software package that you could buy.

Last year, though, I visited Silicon Valley and had one of those proverbial light-bulb moments.

I realised that technology had reached a tipping point.

I realised that the capabilities of technology – whether it’s cloud computing, high speed wireless Internet, mobile devices, personalised apps, social media or big data – have caught up with the promise of technology.

Instead of asking the question, what can the technology do, the question now is, 'What do you *want* to do?'

The limitations are no longer a question of capability, but of imagination.

‘The Biggest Disruption since Deregulation’

What does this have to do with banking?

Well, everything.

Historically, technology has played a huge role in the development of banking – whether it was mainframes, ATMs, internet banking or mobiles.

At my own bank, Westpac and St.George have been technology leaders.

For example:

> Westpac was the first Australian bank to introduce ATMs – and to place a PC on the desk of all employees,
>
> And St.George has a proud history of innovation: Its predecessor Advance Bank was the first Australian bank to introduce online banking – and recently it launched the first banking app for smartwatches.

That's not to say the banks always get technology right.

For example, during the 1990s, we banks did a lousy job of helping people as they began to shop online.

We tried to apply the existing credit card process to an online world, making online shopping clunky and subject to fraud.

This failure to change with the times created an unmet need – and PayPal met that need in 1998.

PayPal was the disruptor – but only because the banks dropped the ball.

We can't make that mistake again.

We have to be our own disruptors and make technology work for our customers.

After all, technology is driving the biggest disruption in our industry since deregulation in the 1980s.

For our customers, the capabilities of technology are beginning to catch up with the limitations – and changing behaviour and expectations in ways we could not have imagined five years ago.

Banking is now something people do anytime, anywhere… on almost anything.

Over the past three years, digital transactions have risen by 40 per cent, while branch transactions have declined by 13 per cent, and phone transactions by 27 per cent.

In October of 2012, 20 per cent all point of sales transaction were via contactless debit. And the most recent date shows that this has now increased to 60 per cent.

In the first quarter of this year, our customers opened 42,000 accounts digitally – without turning up in a branch – and 35 per cent of those accounts were opened on a mobile device.

We expect this trend towards not just digital but mobile banking to continue – and accelerate.

As a consequence, our services are changing – rapidly.

For instance, our customers can now use a Samsung Galaxy 3, S4 and S5 to make a purchase in a store by simply tapping their smartphone on any contactless merchant terminal – no wallet, no cash, no plastic card.

All our customers have to do is download the Westpac Mobile Banking app to a compatible phone, and set up the app to tap-and-pay.

And contactless payments are just one of the trends that are changing the banking experience.

Our branches are keeping up with these evolutions by changing shape and getting smaller.

Branches still handle cash and cheques, but they are now designed more for providing advice and helping people make the most of 24-hour services such as SmartATMs and digital banking.

As demand changes, we need to find new ways to serve our customers who live and work in parts of the country that are unable to sustain traditional services.

I believe the advent of new technology will improve the availability and quality of services available in remote areas.

For instance, we've recently launched a service designed to make it easier for small and medium-sized businesses to access our experts.

This service is called Connect Now in Westpac – and Business Connect at St.George and the Bank of Melbourne.

It's a video conferencing service that lets customers access whatever specialist advice they need without having to travel from suburban or regional areas to the CBD.

Customers can book a video conference at a local branch, and then talk directly to our experts about equipment finance, working capital, complex payment solutions, foreign exchange, self-managed super funds, transaction banking, or wealth and financial planning.

That means a customer in Karratha can now speak 'in person' to a financial planner in Perth.

'A 200-year-old Start Up Company'

As Westpac moves towards its bicentennial in 2017, we're not looking back – we're looking forward.

We're getting on with the job of creating a new kind of bank.

A bank that knows its customers better.

A bank that sees unmet needs and is willing to disrupt itself to meet those needs.

A bank that thinks and acts like a 200-year-old start up company.

We know we have to be that flexible… that adaptable… that hungry.

So that's what we're doing.

Let me give you two examples.

More than 880,000 of our customers are small and medium sized businesses.

Given that 90 per cent of the firms investing in innovation in Australia are SMEs, we believe it's in the national interest to back this group of customers.

That's why, since the Global Financial Crisis, our approval rate for loan applications from SMEs has ranged between 80 and 90 per cent.

And that's why, when our customers operating small businesses told us that traditional merchant terminals were too expensive we decided to disrupt ourselves.
We came up with an app called Mobile PayWay – which turns a smartphone or tablet into a merchant terminal.

Using our Bluetooth card reader, banking customers can take a payment, issue a refund or email a receipt via their smartphone or tablet – anywhere, anytime.

Mobile PayWay is as easy to use as our mobile banking app – and our small businesses customers love it.

Another example: lost cards.

Customers told us that one of their greatest fears was being stranded without access to cash, so we decided to disrupt ourselves.

Was there any reason why a customer should have to wait until a branch opens or they receive a new card to access their cash?

We decided there wasn't.

So, last month we introduced Westpac Emergency Cash, a *card-less* cash solution.

Now if you're a Westpac customer and you lose your card and need cash urgently, you can use any phone to call our contact centre – which is open 24 hours a day – and receive a code and directions to an ATM where you can withdraw cash from your account without a card.

Now arguably, these examples qualify more as innovations than disruptions.

However, my main point is that disruption happens when businesses don't pay close enough attention to the needs of their customers.

We also know that new business models are developing – and they won't fit neatly inside our current operating model.

We're preparing for those disruptions by staying close to the next generation of start ups – through initiatives like our venture capital fund, Reinventure.

'No Bank is an Island'

For us, thinking and acting like a 200-year-old start up company means thinking and acting in the best interests of the customer.

As Australia's First Bank, and Australia's oldest company, we realise that we can only be successful over time if our customers are successful.

That's a lesson too many banks forgot in the lead up to the GFC.

I saw that first hand when I was recruited to the Royal Bank of Scotland in 2009, shortly after the GFC hit Europe.

Living in Britain, I saw the devastation of the GFC up close:

The good businesses that were destroyed,

The good people who lost their jobs,

The governments that were forced to step in to stop banks from falling over.

It was brutal. It was global.

It demonstrated how, in a global and digital economy, everything is connected and change is accelerated.

Economic disruptions that, in decades past, might have taken weeks or months to spread went global within hours.

And it was also avoidable.

The GFC demonstrated the importance of balance.

Too many people forgot that a bank's purpose is to promote economic progress – not for a few, but for the majority; not for the short term, but for the long term.

To paraphrase John Donne, no bank is an island.

Large banks like Westpac play a central role in the lifeblood of the economy. We're connected to our customers, our shareholders, our employees, and the community at large – and it's our *responsibility* to strike the right balance between each of those groups.

That might sound like a trade-off. It isn't.

In my experience if you focus too much on one part of the equation, all the other parts will suffer… including the one you favoured.

'Nationally, We Need to Disrupt Ourselves'

Much of the debate since the GFC has focused on banks' safety.

Globally, we've seen increased capital and liquidity requirements, higher funding costs and lower credit growth.

Given the size of that economic disruption, those changes are understandable.

However, in responding to legitimate issues such as these we need to ensure intervention doesn't go too far.

Remember, sustained prosperity is a question of balance.

Risk, for example, can't be eliminated – but it can be managed.

And an unintended consequence of trying to eliminate risk is that we can, instead, eliminate opportunity.

We should remember that Australia is already a global success story – with a strong outlook. After all,

We avoided the worst of the GFC;

We sit on the doorstep of Asia;

The economy is performing above expectations, with growth of 1.1% in the March quarter alone;

And interest rates are low.

The challenge we face is to unlock Australia's potential by eliminating barriers to growth.

Nationally, we need to disrupt ourselves, by:

Removing barriers to work;

Boosting skilled migration;

Building infrastructure that keeps up with the needs of our ageing and growing population;

And using technologies like 4G and the National Broadband Network as platforms for innovation.

Conclusion

I'd like to finish by coming back to something Wayne Byres once said.

Wayne was interviewed by the *Australian Financial Review* as he finished up at the Basel Committee on Banking Supervision.

This is what he had to say about the aftermath of the GFC:

> There was a real mess made of the financial system and at least for a significant part of my time [there] it was still common to find people arguing we should somehow go back to the pre-crisis world.

There's a lesson there for all of us.

In the digital, global economy there's no going back.

We can't choose the times we live in, nor the circumstances, but we can choose our destiny if we embrace change and make it work for us.

I'm talking about striking the right balance between protecting against unacceptable risk, and rewarding innovation.

I'm talking about embracing the possibilities of new ideas, new people, and new ways of working.

I'm talking about unlocking our national potential by helping the men and women of Australia unlock their individual potential.

I'm talking about thinking and acting like a start up nation.

Thank you and enjoy your lunch.