

Commonwealth Bank of Australia

Ian Narev, CEO

Speaking at Australia-Israel Chamber of Commerce

Melbourne

21 April 2016

Ian Narev speaks at the Australia-Israel Chamber of Commerce luncheon at Crown Melbourne, addressing a range of topics across the banking and finance industry as well as the Australian economy.

Ian Narev, Commonwealth Bank CEO

[Welcome to country]...

...In looking at the culture of our Indigenous people that I get one of the key themes that I want to talk about today, which is the importance of custodianship and the importance of having a sense of thinking for the long term. Because we've just had a fascinating talk from David about technology. And every force that we have out there is demanding of us to make decisions and act in a faster way – instantaneous communication, faster news cycles, algorithmic trading. And it's certainly the case for sure that short-term tactical responses are critical; but sound strategy is built on long-term thinking, on thinking about where the organisation wants to be five, 10, 15 years hence. And when we look at the prospects, the strategy for the Commonwealth Bank over the next decade, the inescapable conclusion that we reach is that the number one determinant of our success will be the success of Australia.

Now we employ 2000 people in Indonesia, we've got innovators, programmers in Johannesburg and Ho Chi Minh City, we've got fund managers in Edinburgh, we've got traders in New York, London, Beijing, Shanghai, Hong Kong. We are doing meaningful things outside Australia, because our clients are doing meaningful things outside Australia. But at the core we are an Australian institution. And so as long as we're thinking long term, then the interests of the Commonwealth Bank and the interests of Australia are well aligned. And today I want to talk about a couple of aspects of that alignment, number one is how we ought to think about Australia's long-term prospects, and then number two within that what we believe that the Commonwealth Bank specifically needs to do.

So let me start with Australia. Whenever I'm travelling overseas, usually after our interim and final results announcements and talking to global investors, the conversations are dominated by discussions about the Australian economy – not so much about the Commonwealth Bank, but about the Australian economy. What are the prospects, where's the growth going to come from? And rather than pulling out all sorts of facts and figures we always return to a very simple proposition: that if you look around the emerging economies of the region, particularly the ones in which we do business – Indonesia, China, India, Vietnam – everywhere you go, every lunch you go

to, every investor meeting you go to, you come across people who want to buy Australian goods, invest in Australia, visit Australia, have their children educated in Australia, and live in Australia. Everywhere. And that is, when you combine it with Australia's natural and human resources, the recipe for a successful economy.

People ask when the interest from the region is going to wane, and we respond if you look at the demographics of the region it has barely started. Now for sure there are cyclical risks in it, lots of discussions about the Chinese economy, lots of discussion about what a devaluation of the renminbi might do to economies of the region, and there could be some significant cyclical corrections. But the long-term trend is clear, and the long-term trend represents an enormous and growing opportunity for the Australian economy.

But as usual, opportunities come with challenges. And the reality is that an economy based on the prescription that I have just outlined must be an open economy. And in recent years around the world, in- particular in developed countries, people have increasingly doubted – and with good cause – about whether the benefits of open economies are really well distributed. They've lost confidence because we can talk about the benefits of an open economy, but if it doesn't translate into job creation, if it doesn't translate into improved standard of livings, and at the same time some sections of society are seen to be beneficiaries of that open economy, then people lose confidence in it.

The way to rebuild that confidence is not to try and protect the economy from the inexorable global forces, and David has just outlined them for us. We have to understand that an environment of global capital flows, global people flows, global technology, the sources that provided jobs in the past will not be the sources that provide jobs in the future. And therefore as an economy, the number one policy discussion that we need to be prepared to have, as part of the open economy that's going to embrace this wealth of opportunity, is where will the new wave of jobs come from? And in addition to that, how we collectively as a community are going to define that right that we all hold so dear about having a fair go, what are the minimum standards that we want in our community? Job creation, fairness.

Now these are not alternatives, each requires the other. But we must be prepared to engage in that debate if we are going to build on Australia's outstanding prospects. How do we do that? I don't have all the answers. But we all know that we're pretty much on the precipice now of another election cycle. And what I can tell you, having been in the last month visiting our people and our clients in New South Wales, and Victoria, and Tasmania, and Western Australia, in Queensland, that people are up for the debate. And as we move into an election cycle, increasingly we are seeing people who don't want the debate about these critical aspects of where will the jobs come from, what are the standards of fairness, reduced to slogans and sound bites. They want to hear the policy, they want to see the policy scrutinised. They want the proponents of the policy to be asked the second or third order questions, because these are tough questions.

And I've seen it also in my capacity as a director of the Business Council, where we undertook a one-hour virtual town hall on tax policy and more than 20,000 Australians participated at some time in that hour to talk about tax policy at seven o'clock at night.

Which is probably not what you or I would necessarily choose to do at seven o'clock at night. People are interested, they're up for the debate. We need to make sure that we have the debate with good, structured detailed policies that are subject to the scrutiny of what do they say about where jobs will come from, what do they say about the standards in our society, and do they stand up to the scrutiny of practical implementation. Because from the lens that we see at the Commonwealth Bank, most of our stakeholders understand that we're at the point now where good policy will be the difference between Australia being able to harness these great opportunities and Australia being left behind. We have reached that point.

So the second question, what does that mean for the Commonwealth Bank? Well in answering that I want to go to another great Indigenous inspiration, the tangata whenua, the Maori people of New Zealand. And there's a famous Maori proverb which asks: what is the most important thing in the world? And the answer: he tangata, he tangata, he tangata – the people, the people, the people. We can talk about technology, we can talk about economies, we can talk about volatility, we can talk about markets; the number one determinant of our success for the Commonwealth Bank will be our ability to attract, retain, train, develop, motivate, and partner with exceptional people. And there are two qualities in particular that we believe are going to define a successful Commonwealth Bank person over the next 10 years.

The first, and I want to hark back to what we heard again earlier from David, is their ability to understand and embrace the opportunities that new technology is bringing for our customers. Critical skill. I had the pleasure of speaking with our local leaders here yesterday afternoon, we talked about the importance of being able to absorb and drive change. And by the way, that frequently is mistaken for a view that you need a whole lot of young new people. That is not the case.

Last week in Hobart I had a chat over a beer to two colleagues with a combined 80 years of service with the Commonwealth Bank. They couldn't stop talking about new technology. They've never been more engaged, never been more excited about the possibility for our customers. So that's number one.

Number two is a genuine commitment to the vision of the Commonwealth Bank to excel at securing and enhancing the financial wellbeing of people, businesses and communities. And this is where I want to touch on the topic de jour, which is culture. And in that discussion it's important to understand some fundamental truths about the banking business model. By the nature of what we do – extend credit, manage investments, provide insurance – it is an unfortunate but inescapable reality of our business model that we are going to have some troubled relations with customers. If some of our loans aren't going bad we are probably not lending enough. If, when markets go up and down, we're providing investment advice and some of those investments aren't performing worse than people are expecting, we're probably not giving the right breadth of investment advice. That is an important aspect of the business model, and what we need though as we move forward is people who, number one, try and minimise those cases, do their utmost to minimise those cases, but then number two, understand that when they occur they need basic understanding and compassion. Compassion. Because when something goes wrong for a customer dealing with a financial services product it goes to the core of their wellbeing, and that's

why the word wellbeing is at the front and centre of the vision of the Commonwealth Bank.

Now, it was with this thought in mind that about three years ago a spirited debate started on the Commonwealth Bank board, led by our chairman whose view was that ethics – broadly defined, culture – is becoming a more important determinant of a financial services firm's success than it ever has been before. And as a result of that, two years ago we took a bold move of working with the Ethics Centre in Sydney, and asking them to provide an objective read of the culture and the ethics of the Commonwealth Bank Group. Come in, work independently, and tell us what you find. Now, their work confirmed that we've got a strong culture, we've got a customer-focused culture, we're doing a good job for our 15 million customers. But it also confirmed a compelling need to change. We're a 105 year old organisation; we have to evolve to meet the emerging needs of our customers and of our stakeholders. And just as we want to pride ourselves on the success with which we can make the transition in relation to technology, we want to pride ourselves on the ability to move with the times on stakeholder expectations on ethics and culture.

And so on the basis of those recommendations we embarked on a program of work last year led by a very senior colleague at the Commonwealth Bank who reports directly to me on this, and reports progress to the board regularly – the next time will be on Wednesday of next week. And the work that we're doing is focussed on three root causes that we're working on. Number one is people who set out to do the wrong thing. There are few of them, but they exist, and the answer to that is relatively simple: find them and get rid of them, and people have been and will be dismissed from the organisation for that reason.

The second root cause is people who don't have bad intentions but are hamstrung on occasions by policies that might be too bureaucratic, that have not moved with the times, that are too complex, and that leads to poor outcomes for customers. That also is intolerable, and so in response to that we have been looking backwards, in some cases over a decade, running remediation programs, proactively looking for problems, and as a big institution that's been around for 100 years, remediating those problems. Now, one or two of those have been relatively high-profile remediations, but the vast majority of the remediations by numbers and by dollars have been things that we found, that we're fixing, and that in many cases the customers themselves didn't even know about. So that is the second of the potential root causes.

The third of the potential root causes is that it can be really hard for an individual with a good complaint to be heard by the institution. And that has caused us and the rest of the industry, as you will have seen with the Bankers' Association announcements this morning, to look into complaints processes, ombudsman processes, how we can have genuine customer advocates. We're very serious about the work we're undertaking to address those three areas. It covers policy, it covers process, it covers incentives. At some level it will never be done, but we will continue our commitment to it.

The final point on the root cause I must make is that in some cases we have customers who feel dissatisfied because they are being unreasonable, and because they are acting improperly with the Commonwealth Bank, and because they hope they will

embarrass us into settling in a way which no reasonable Australian would expect us to settle. And in that minority of cases the right outcome is take the criticism, do the right thing, and stick by the rights of our customers and our shareholders.

So this is work that is long-term work, that we're taking seriously, that's being done, led at the highest level of the organisation and permeating through the Commonwealth Bank largely through our own initiative. And this leads me to the final topic, and a quick comment I'm sure people are interested in is the recent debate about the scrutiny of the Australian banking system. I think it's pretty well understood that over the last decade and beyond – and this was confirmed by the Financial System Inquiry – the strength of the Australian banking system has been one of the critical determinants of Australia's economic success. And the facts show that across the industry we have record levels of customer satisfaction, we are innovating at levels which are on par with the best financial institutions in the world. We're among the strongest institutions in the world by capital strength, and we've got very strong, very forceful regulators. But we have made mistakes. The Commonwealth Bank has made mistakes, some of our other institutions have made mistakes; we need to acknowledge those. But the fact that the position of the industry has been so strong, that we're acknowledging and fixing mistakes and that we have such strong regulators makes the analogies with other circumstances in which royal commissions have been recommended baseless. The royal commission is bad policy; it's not the right policy for an industry with this record, with this approach, and with this regulation. Some of the critics suggest that the reason we don't want one is for fear of the scrutiny.

Well I can tell you that in the nine years that I've been on the Commonwealth Bank executive committee, and the nine years I've participated in executive committee meetings and board meetings talking about liquidity in the Global Financial Crisis, deposit guarantees, wholesale funding, acquisitions, talking about some customer problems, there's not a single discussion I've been part of that gives me cause to have concern about scrutiny at all. And in fact I and my predecessor and our teams have fronted on regular occasions – as we should be expected to – to committees in Canberra. We have talked in detail, provided detailed information, subjected ourselves to the scrutiny. We expect the scrutiny; we accept it as part of the business.

No, the reason we don't think the royal commission is a good idea is because it will harm one of the great sources of strength of the Australian economy. It will impact overseas investors' view of the strength of the Australian banking system. We're in a good position to judge that because every day we are in funding markets, we're talking to debt investors, we're talking to equity investors. It will divert resources and management attention at a time when the global economy remains volatile, and for all that it will not produce any results which good, strong regulators – buttressed by the government's announcements two days ago – couldn't have achieved anyway.

I'd just like to wrap up by shining a bit of light on what do people actually mean when they're talking about the big banks. You hear the term the big banks a lot. Well, this big bank is Australia's largest corporate taxpayer. This big bank employs 50,000 people. This big bank works with 6000 small businesses each year as partners. This big bank is owned by 800,000 Australian households directly and millions more through their investment funds, who collectively have about \$100 billion of their wealth tied up in the Commonwealth Bank, and for many of whom the difference between a

good dividend and a great dividend really matters to their decisions about their standard of living for the next six months.

We will continue in our focus on the long term to work for all those stakeholders, and at the centre of how we work for them will be the realisation that we exist to serve the people and businesses and communities of this country.

Thank you.

-END-