



## **Ian Narev, CEO Commonwealth Bank Group, shares his vision of the 'Bank of the Future'**

CEO Ian Narev delivered his first keynote speech to over 800 attendees at the Trans-Tasman Business Circle on 2 May, 2012 on the subject of 'The Bank of the Future'. The speech was also broadcast live on Sky News.

### **BANK OF THE FUTURE**

---

It is a privilege to be here.

And the only way to get people in a room when a banker is talking is to do it on the first Tuesday of the month. And indeed, while I'm talking, a group of very wise and eminent people are up the road debating what to do with the key national pastime which is the discussion on the official cash rate. And this is a very important topic. It's very important to our customers, it's very important to us as an institution, it's very important to the economy, and I'm not going to talk about it today.

Because one of the concerns that we do have in the institution is that this single rate on a single product is increasingly defining what we do as an institution. And while it is critical, we need to broaden that debate. And I want to broaden it today by doing what I'm really paid to do, which is manage for long-term value. And when we think about the opportunities and the challenges regarding our long-term value, we must start with technology.

Because while the Reserve Bank is deliberating today and you're all here, for the 15 or 20 minutes while I speak, 52,000 Commonwealth Bank customers are going to be logging onto NetBank, and 27,000 of those are going to be initiating a transaction during the time that I'm speaking. And we're just at the start of this change.

So we see a big opportunity here and we see an enormous strategic challenge, because if we're not willing to adapt our business model to seize the opportunities and respond to the challenges of this technology, we will get left behind. So that's what I want to talk about today.

Now, there are terabytes of information written about technology, what it does, what its opportunities are, some of which applies to financial services and some of which applies beyond financial services. And I want to take those terabytes of information and I want to get them down to four words, which I'll talk about - convenience, simplicity, information, and trust.



And I want to talk briefly about each of those in terms of what we're seeing out in the market, how we're responding to it and how the world might look. Because at the core of all this, we are moving towards a world - and we can see it already - where the customer is increasingly in control, wants to deal with us whenever and wherever he or she sees fit, and wants to see us as a facilitator.

And I had a good discussion this morning with our chief information officer, Michael Harte, about is the technology driving the consumer behaviour or is the consumer behaviour driving the technology? And Michael, who's a tech guru, is of the firm view that actually the technology is just encouraging human beings to do what they really want to do, and that emphasises the challenge even further.

So I want to talk briefly about each of those four words. Before I do that, I do want to be clear about what I mean when I refer to technology, because again, this is a very amorphous term and there are four or five things happening at the same time which form this environment that we need to be responding to.

Bandwidth is causing internet speeds to be faster; that's number one. Devices are becoming more mobile and more agile; that's number two. There is a proliferation of applications that are written for those devices, many of which are about social interaction or richer engagement; that's number three. Storage costs are going down; that's number four. And those together with faster processing speeds, which is number five, are creating all this change.

Now, harking back to the discussion I had with Michael, the change is really caused by how human beings are interacting with those technology changes, but they are all happening at the same time and we're not anywhere near the end of the change that's going to cause; it's just the beginning.

So although everybody thinks we spend all our time at the head of the organisation talking about what to do with a specific rate, the vast majority of our time is spent on longer-term issues, and in particular, how this big institution needs to respond at scale to these technology changes.

So let me start with convenience. I think it's roughly a year ago now that the Duke and Duchess of Cambridge got married. I'm sure most of you, like I did, sent your note of congratulations on the wedding anniversary. But our new head of marketing, Andy Lark, noticed something pretty interesting about the royal wedding.

Now, the fact that Andy's our head of marketing in and of itself is a sign of the changing times because Andy came from Dell in the United States and Andy's never been around a bank for a day in his life. And Andy looked at the data for log-ons on NetBank, our internet banking site, during the televised coverage of the royal wedding. And what he noticed was a spike.



Peak viewing hours in the royal wedding corresponded to a big spike in activity on NetBank.

And what this is reinforcing to us very clearly is that banking is increasingly becoming a companion activity. People want to do it while they're doing something else. There's an ad break, they want to check their balance. There's a lull during someone's speech, they want to initiate a transaction.

Now, increasingly they also want this convenience when they're on the run, because as at today, 32 per cent of the log-ins that we have on NetBank are through mobile devices. Now, that number was only 19 per cent as recently as last June. So we've gone from 19 per cent on mobile devices to 32 per cent.

So customers are saying to us, we're no longer setting time aside, an hour in the day, half an hour in a day to do our banking, we actually want, just want to keep doing it and it might be late at night and it might be during the day.

So how are we responding to that? We are ensuring, number one, that banking increasingly through our technology, is real time, because increasingly a lot of these transactions are doing things like displacing cash, and when you're repaying cash to somebody there's no point giving them the cash and saying, here's the debt back and you can use this \$20 note next Tuesday.

So our system, like that transfer of cash, needs to make what the customer wants to happen occur when they do it. And we've had over 1500 people working full time for four years to make that happen, and now we've got all of our deposit and transaction customers, over 10 million, on that real-time platform.

We've also got to make sure that the different ways people can interact with the bank all look roughly alike so they know what they're doing and all work with each other, but that they're adapted to the different ways of engaging with us, because you want the bank to look a little bit different on an iPad to how it looks on a mobile phone, and you want the branch to look a little bit different.

So we can see a world under this heading of convenience where somebody starts an inquiry while they're watching the royal wedding, during an ad break goes onto their home computer, collects to chat with a financial advisor, continues it, gets a bunch of information which they read on the mobile phone on the way to work, and then decides that they want to finish it off face to face in the branch, because machines will never replace people entirely.

And the branch remains core to what we're doing, and even though it's now looking very different because basic transactions are declining 2 per cent a year, business customers are now 25 per cent of branch traffic, the



branch is going to remain central to how we interact but it's going to look different. And if you want to know how it's going to look different, go have a look at the branch at Darling Walk or go have a look at the branch in Queen Street in Brisbane. So that's convenience.

Simplicity. We're hearing customers say, you're too complicated; we feel like you've got teams of hundreds of hundreds of hundreds of people dreaming up new products for us that we don't really understand. And they're largely correct. What they're saying is we want things simpler and if they're simpler we can be put more directly in control of what we're doing. So please use the technology to make things simpler.

And how are we responding to that? With a core banking platform, that we've built with the help of SAP using their software with the help of Accenture, breaks products down into very simple components. Deposits are not complicated. A deposit is an amount of money that you entrust to the bank for a period of time which you may or may not want in the interim which is going to pay a certain rate of interest, at a certain frequency, with certain instructions on maturity. Might be six or seven headings.

Now, previously when we wanted to adapt these - because six or seven headings gives you all sorts of permutations, someone else smarter than I am can do the maths - we had product teams wanting to change these configurations and taking two or three months to do it. What the system now enables us to do is break these down into components, change the components and change the product in a matter of hours. So, product response times go from weeks to hours. And increasingly we can put that control in the hands of the customer.

So we can see a world where the product design function is largely done by the customer, where we create the environment in which they can engage well to do it simply, and where - back to my point about convenience - we give them the opportunity to interact with us at their convenience if they get stuck. And that may be as simple as clicking to chat on your computer and having a human response talking you through where you are. So, that's simplicity.

Information. Today, at the Commonwealth Bank Group with a credit card share of 21 or 22 per cent and roughly a third share of the merchant terminals in Australia, we see at least one side of 45 per cent of the transactions that happen in the country. But as people frequently know about the difficulties of the internet age, having access to the information is one thing, the big thing is how you're going to use it.

And we're thinking very carefully about the manner in which we store and organise this information, the ease with which enquiries can be made on that information, the simplicity of the way that those enquiries can be given back to our people to use the information positively. That can help us get better insights in the economy, that can help us tailor products better for



customers making offers more specific, that can help us price for loyalty, that can help us assess and price risk better which is obviously at the core of what we do.

Now, obviously from the point of view of a financial institution we've got to be extremely careful about privacy, extremely careful about security, and I'll come back to that in a moment when I talk about trust.

So, the world our customers ought to experience in the future is a world where offers feel better tailored to them, where they feel that the pricing more reflects their overall value to the institution, and where they notice difference in pricing based on their risk profile more. That's what information can do for us.

But as I said that leads very quickly to the fourth point which is trust. Now, much of what I've said up to now is about new ways banks need to think - financial institutions need to think. There's also a very old way that they need to keep thinking and that's that the customers relationship of trust with the group, must be impenetrable.

Now, despite what people say, that doesn't necessarily mean they've always got to agree with our pricing decisions but fundamentally they do have to believe we're fair, they do have to trust our security, they do have to trust the fact that we use their data responsibly.

And in addition - and we've learnt this in spades through the financial crisis and anybody who has had both the privilege and the challenge of sitting on an executive committee of a financial institution over the last three or four years knows capital and liquidity create trust. Good risk practices create trust and in the bank of the future those core attributes of banking are as important as they have ever been.

Interestingly when we think about those attributes we think not only in terms of the fact that that trust with our customers is a critical part of our license to operate, but we also see it as an opportunity to differentiate ourselves from technology driven attacker models. Because even in the post financial crisis world where understandably customers suspicion about some financial institutions has been challenged, we've noticed that on the relativity of do they trust us with their money, do they trust us with their information, we fair very well. We must not and will not take that for granted for any moment.

So, that's how we're preparing for the bank of the future - thinking about the convenience, thinking about the simplicity, thinking about the information, thinking about the trust. In many ways the title of bank of the future is a misnomer because much of what I've talked about is the bank of the now. These things are happening now in the institution and that's why this topic is such a priority for us.



We are moving towards a world where the customers are more in control, where our job is to create more engagement with them, where we need to think differently about that.

And although when we did our strategy update and I said we don't like to use the words cross-cell, that was mistakenly interpreted as a dig at our competitors. It actually wasn't at all. It's more that terms like distribution and cross-cell, which have connotations of a whole lot of people in a back room making stuff and handing them out to customers, are not how the bank of the future is going to work.

The bank of the future is going to be the customer being given the environment to create those experiences for themselves and that's an environment that we are very excited to be part of, that we feel we have an advantage in and that we take very seriously.

Now, as we go to questions and particularly the media questions I'll be taking later, I've got no doubt the first question will be about interest rates and then the next 49 questions will be about interest rates again but asked 49 different ways, but it's good to have had the opportunity at least for 15 or 20 minutes to talk about something else.

Thank you.