February 23, 2007

David Liddy
Managing Director
Bank of Queensland

Let me start by thanking the Australian-American Chamber of Commerce for the invitation to speak in Melbourne today.

I also want to thank Mark Nicholas, BOQ's Queens Road branch Owner Manager here in Melbourne, for bringing us together. Mark unfortunately couldn't make it today as he had to travel overseas unexpectedly, however I'd like to acknowledge his efforts in organising today.

It may surprise you to know that when I agreed to speak here today, I did not have to draw too long a bow to make connections between Bank of Queensland, America and Melbourne.

While Bank of Queensland may be a household name in its home State, and a growing brand in the financial services sector nationally, it is fair to say that we have a way to go to become the brand we believe is possible nationally.

As one of Australia's last free-standing regional banks, BOQ now has a rather unique niche in the Australian finance sector.

Our unique distribution model and our passion for "banking different" has enabled us to grow significantly above system for the past several years, and positioned us as a real alternative in Australian banking.

It has been a combination of evolution and revolution which has brought the bank to its current place in the Australian corporate scene.

Bank of Queensland, which now has 22 branches in Victoria and 79 of its 219 branches outside of its home State, started down its latest evolutionary path when I joined in 2001 as Managing Director and CEO.

Up until then it was like most building societies and regional banks – it was customer focused by default, built strong customer loyalty through regional branding, and had limited product and access offerings.

Don't get me wrong, BOQ was going along quite nicely, but it was not setting the world on fire.

Unfortunately, the world was changing. Increased competition from international players, a growing understanding by the big banks that maybe they had gone too far with cost-cutting, and increasing international and national regulatory requirements all were beginning to bite.

Combine this with an increased expectation from the customer when it came to service and accessibility and it was a recipe for radical change.

Fortunately, I had been a student for some time of another country's banking environment, and in that environment, I believed, were some answers to the questions being asked of Bank of Queensland.

The fact that BOQ had carved out its niche through a close look at banking in the United States in the 90s may be news to many of you.

Having briefly worked in the USA some years ago, I had stayed in touch with the US industry, and seen some early trends.

While the US banking market is very different from Australia's, there were some customer service trends which were worth looking at in 2001.

A key one was the return of new branch growth, particularly in the so-called state-based, regional challengers. While the larger end of town merged to extend their network, these banks like CommerceBank were opening branches – lots and lots of branches.

They were not franchises, but they focused on a retail-style delivery of services, empowerment of staff, and based it all on customer-friendly, customer-focused delivery.

As some of you may know, in the United States, one of the fastest-growing banks is Washington Mutual, or WaMu as it is colloquially called.

WaMu launched an aggressive expansion program and led it by opening new branches with its network growing from approximately 1000 stores in 2000 to 2600 stores today.

That's a lot of branches, and a lot of new branches. WaMu is a little bigger than BOQ, with assets of about $350 billion, but I could see parallels between the two in 2001 even if the market sizes were very different.

In fact, WaMu calls its branches "financial centre stores" and most of us would not even recognise them as a bank branch if we walked past one. They are a retail outlet, designed for and focused on customer service.

Several years ago WaMu effectively adopted another one of my favourite sayings from the ancient Chinese philosopher Sun-Tzu. It reads:

"You can be sure of succeeding in your attacks if you only attack places which are undefended."

Attack in undefended places. Open branches where others have closed them. Be the first in new economies. Open yourself to the widest possible customer base while your rivals are looking to secure so-called valuable customers and turning to methods of limiting direct customer contact.

Return to a retail-orientated, customer service culture while others in the industry are hiding behind darker screens and telephones and computers.

It was a radical concept in the US in the year 2000. In Australia it was even more radical when Bank of Queensland embarked upon it in 2001.

One of the many interesting facts about WaMu is that it is not a new bank. Like Bank of Queensland it was established in the late 1800s. Also like BOQ, it has thrown off its traditional shackles and re-focused itself, tackling all the baggage which goes with such a decision and emerging as a dynamic corporate butterfly.

While I am quick not to fall into the political trap of saying everything in the United States is good, or, for that matter, bad, there is always something to learn by looking at other markets.

A couple of years ago the respected publication “The Economist” carried out its banking survey which focused on the new branch explosion in the US as a key strategic factor in the growth of some banks, and a change in the industry compared to five years before.

The article stated, and I quote: “Now bigger banks too are rediscovering the value of the personal touch. Until recently the trend was to automate everything. Branches were out of fashion, because people and buildings were thought to be too expensive. Some American and British financial companies are making themselves more remote than ever by shifting their call centres to India. The internet seemed to complete the depersonalisation of the industry.”

The article goes on: “To be sure, banks have not abandoned the telephone or the internet. For all that, the branch has been making a comeback. Most people prefer to discuss mortgages, mutual funds and so forth face-to-face. Moreover, banks these days want potential customers to do more than open a new current account. They aim …to maximise their share of wallet by selling a whole portfolio of services…people are much better at this than machines.”

Let me repeat that…”people are much better at this than machines.”

Gee, I am sure Australian banking customers never thought of that!

The US banking market has seen the rebirth of the branch as a retail sales channel. It is seeing the death of the never-ending search for the so-called valuable customer, and replacing it with the search for all and any customers.

After all, once you have the customer, they can then become valuable to you.

It is an approach we have undertaken at Bank of Queensland. As a small bank, we have been able to be a market leader in Australia with the return to the branch network.

And now it is being adopted by the larger banks here, with ANZ announcing a significant branch expansion and all of the majors trying to get back closer to the customer and retake the ground held for the last decade by the regional banks, building societies and credit unions.

What’s old is new again. One thing you can guarantee in any market these days is that a competitive advantage will only remain so for a very short time.

While opening branches and focusing on service has brought BOQ to its successful growth over the last five years, we can not rest on our laurels.

We must continue the evolutionary change, look for new ways to differentiate ourselves from our competitors.

One of the advantages of being small is being nimble, able to adapt to market changes faster than those larger competitors.

Of course, one of our major competitors in the race for best customer service bank is based right here in Victoria.

Like BOQ, Bendigo Bank has taken a different path from the majors. Also like us, part of this path was forced upon them in their effort to carve out a market, but the rest was the realisation that a different path did exist, and that customers would respond to it positively.

While Bendigo's franchise is community based and run through community boards who encourage local people to stake the start up funds for a branch, Bank of Queensland's model is also community-based but more in line with a traditional franchise.

But that is where the tradition ends. Bank of Queensland's model is unique in the world.

Our franchisees, who we call Owner Managers, are bankers and we focus on matching local people into local areas.

The key is the people. Matching the right people to Bank of Queensland in the right location is the key to success. People like Jason Padam, Nick Azar, John Hicks, and our newest Owner Manager Shaun Huntington, who opened his Hawthorn branch on Monday this week.

We now have in excess of 160 franchisees across our network, and we have been successful in this match-up in more than 95 per cent of cases.

The model works, and has worked now for more than five years. Even in those cases where an Owner-Manager has not worked out we have been able to bring in another franchisee to take over the branch.

As I said, the success relies on the people we have as Owner-Mangers, and you need look no further than our success here in Melbourne to see how well it has worked.

We opened our first two branches in Melbourne, here in the CBD and at Frankston, in August 2004. We now have a network of 22 across the city, and Geelong, with some of our most successful branches here.

Already we have attracted more than 14,000 Victorians to bank with us.

While the Melbourne housing market has slowed, it remains solid and we have seen no negativity around our brand having the name Queensland in it, not here in Melbourne.

And, speaking as a Lions Board member, that's despite the success of the Brisbane Lions over the last few years.

In fact, our Victorian growth and success has come despite a miniscule marketing budget compared to our larger competitors.

It really has been a case of David and Goliath. While we are outspent on TV and trams advertising, our local branch managers have quietly gone ahead with the job of converting customers from other banks to BOQ.

Remember, we started with no presence and no customers, truly a greenfields expansion, and yet we now have a strong network which will continue to grow on that strength over the next few years.

Our Victorian network, along with the New South Wales branches I mentioned earlier, have since been joined by branches in the ACT, Western Australia, the Northern Territory and Tasmania with the final link in the national chain, Adelaide, opening in six weeks.

They are supported by a national business banking and equipment finance network, some of whom are here today, along with the second largest bank ATM fleet in the country, with more than 2000 machines.

In fact, the Melbourne-based Australian Asset Finance Association awarded Bank of Queensland equipment Finance it's Financier of the Year award for 2006.

The award measures service, attitude, pricing and user-friendly documentation, and we were number one.

That award followed research undertaken by East & Partners that showed significant growth in BOQEF customer satisfaction, against a trend of declining customer satisfaction among the big banks.

So, even as a little bank, we have been the mouse that roars when it comes to reputation, expansion and growth.

And it has been profitable growth.

In 2001 our statutory net profit after tax was $24 million, while in 2006 it was $92.7million.

In 2001 our cash earnings per share was 38.2 cents, and in 2006 it was 76.4 cents.

In 2001 our loan approvals amounted to $2.8 billion whereas in 2006 they have reached $10.0 billion.

Our assets under management have more than trebled over the same period, from $5.2 billion to $16.9 billion.

And the share market has rewarded us for the growth. Our market capitalisation five years ago was $400 million and now it is around $1.7 billion.

It's a good growth story, and one which is far from over.

US Bancorp based in Minneapolis is a similar story. It was about our size 10 years ago but today has, in US dollars, assets under management of $219 billion and more than 2400 offices and a market capitalisation of $US64 billion.

One of the interesting footnotes to this growth has been that in 2003 we decided to no longer utilise mortgage brokers to sell our homeloans, again differentiating us from most of our competitors.

Now, before you think we are getting ahead of ourselves at BOQ, I must reinforce that we hold no illusions about how tough the market is now, and will be in the future.

In fact, after 39 years in banking, including 33 at one of the big four, I do not believe I have ever seen a more competitive market in the Australian finance sector.

This competition has been good for the customer with lending margins down and deposit rates comparatively high. It has also meant a proliferation of customer-focused products which have made banking easier.

However, there is a squeeze on, and some of that squeeze is coming from Commonwealth policies which are creating an unreal market.

After all, Australian banking is the last great corporate competition law dinosaur. It has weathered regulatory climate change and the extinction of protectionism in every other industry from cars and textiles to airlines and energy.

It is the one true anachronism left in competition law in Australia – the elephant in the room that neither Government nor Opposition want to talk about.

Despite banking deregulation, a myriad of international entrants, new international regulations imposing higher costs, particularly on the smaller building societies and credit unions, and a technological explosion, the Four Pillars policy remains unchanged and unchallenged.

Few in the finance sector, or I suspect in Canberra, still believe Four Pillars is good public policy. In fact, many agree, at least privately, it is way past its use-by date.

So why maintain the Four Pillars policy? Why restrict Australia's Big Four, two of which are based here in Melbourne, from merging?

Politically, it is a tough call, and I acknowledge that, because of perceptions of job losses and branch closures. But I believe that is essentially negative thinking.

Australia's financial sector is now strong, resilient and structured to not just weather major mergers, but to quickly respond.

The fact is, Australia's Big Four are still small by international standards and, without the ability to come together to create mass, face the prospect in the decades ahead of being taken over by larger international banks, themselves usually the product of multiple mergers in the United States, Britain or Asia.

I firmly believe that should the Big Four become the Big Three, or even the Big Two, the smaller banks would move quickly to fill the gap in both the market and the customer segments.

St George, Suncorp, Bendigo, Adelaide and, of course, Bank of Queensland, are all expanding in their own ways. They provide a strong second and third tier of banking, then further supported by the building society and credit unions, to provide for Australia's customer base.

So, instead of protectionism, Australia's finance sector should be allowed to follow those other previously sacred industrial cows into the 21st century to ensure that our banking community remains robust in the years ahead.

I have no doubt that consolidation in our industry will occur sooner rather than later but perhaps it will commence at the small end of town where regulatory pressures and an exceptionally competitive environment force the issue.

Because, as I am sure you all know, complacency in business is death, and Australia must not become complacent after a decade of record growth.

After all, there are many examples of where complacency has caused the demise of a company, or even a country.

Once again, the United States is an interesting example. Only 25 years ago the United States was on the way to becoming little more than a marketplace for other countries' products.

Japan had almost decimated its IT and automotive industries, and the very future of the US as an innovative producer was under threat. The home of Henry Ford had become complacent and distracted and allowed other countries to innovate their way to market leadership.

What is interesting about this analogy is that the US bounced back through innovation. While Japan was copying its computer hardware and undercutting its PC prices world-wide, the US re-invented itself as a first-class software producer and revolutionised the world through the internet, Apple and Microsoft.

So now it can be seen as the biggest, and often the best, in the world marketplace.

Complacency is the most dangerous sin when it comes to the business world.

It is also the hardest thing to combat when you are the market leader.

In the last century, Australian WWI soldier Frederick J Mills knew the score. He said: *"People who sit tight usually remain where they are."*

Change is who we are. Nostalgia is great for old movies and meaningful songs, but it plays no place in business in the twenty-first century.

That is why I try and keep Bank of Queensland as a place of continuous evolution and occasional revolution.

Recently I internally launched the "Other Bank" campaign within BOQ.

You won't see ads or read brochures mentioning the "Other Bank", but it is how I have framed our latest evolution internally.

We are "the Other Bank". Not like the big banks, or even the traditional view of smaller banks and building societies. Neither one nor the other, just different.

And let's be honest, with the reputation Australian banks have had over the last two decades, being different is where you want to be.

A genuine alternative.

But first you must be a genuine alternative for your staff, your team, before you can be a genuine alternative for your customers.

Social researcher and author Hugh Mackay once wrote:

"One of the most important responsibilities of leaders in any setting - including business organisations - is to tell us our own story; to explain us to ourselves; to help us weave some meaning and purpose into the fabric of our lives; to illuminate our understanding of where we have come from; to paint word pictures of our future onto which we can project our aspirations."

How true that is.

So building a consensus of culture within an organisation takes time and dedication and means the executive and the Board, and down through every level of management, has to actually believe and live what we espouse.

So, at Bank of Queensland, we have built a culture of achievement, a culture which accepts and, in fact, revels in change, a culture which thrives on challenge.

Our 160-odd franchisees have contributed to this new culture. They have provided some definite cultural challenges for us because the blend of a traditional banking staff with entrepreneurial franchisees is not always a smooth one.

However, their very spirit has infected our head office, with all of us in support roles having to rise to meet the needs, or should I say demands, of our owner-managers.

So it has been a melding of two cultures, with the result that we have developed something new, something different.

It is still a work in progress, but it is one of the achievements of which I am most proud at Bank of Queensland.

Our success in Victoria has been built on our differentiation, or our focus on the customer driven both structurally through our owner-managed branches and culturally through getting the right people, local people to own those branches.

So, in closing, let me thank you again for the opportunity to speak to you about the ever-changing, fast-growing and extremely competitive Australian banking sector.

While the path of change over the past few years is there for us all to see, the future is still clouded. I have no doubt Australia's banking sector will continue to be the bedrock for strong economic growth over the decade ahead.

The challenge for us all will be to ensure it remains robust here, while also not becoming the victim of our own domestic success and suffer from policy short-sightedness in the future.

One thing is certain though, the power in the relationship between bank and customer had irrevocably swung in favour of the customer.

Customers now shop for the best deal from their banks and demand service and responsiveness unheard of twenty years ago.

Customers have the power, and that is how it should be.

So I urge you all to take that power and head down to one of your local Bank of Queensland branches – you won't be disappointed.

Thank you