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Speech Notes

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Thank you, it's a pleasure to be here today.

"To err is human--and to blame it on a computer is even more so."

So said American comedian Robert Orben, and everyone in this room knows that, while a truism, you could probably add a few words to make it say:

"To err is human – to blame it on an ICT provider is even more so."

Information and Communication Technology has become what every executive or CEO fears – an essential service that they do not fully understand, and can not always control.

Like an organisation's people, you can not operate without ICT in the modern corporate environment, but it is also often the source of your most difficult decisions and most trying challenges.

I was asked today to give a CEO's insight on these challenges, and how executives like me view the ICT industry. I am delighted to get this opportunity, because I hope the end result is a little insight on both sides.

After all, about a quarter of our expenditure goes to ICT every year! One quarter!

Let me note that some of the Bank's extremely talented ICT people are here today, led by Jennifer Heffernan.

I will take this opportunity to record my thanks for their efforts over the last five years. There have been some very difficult times for the bank in the IT space in particular over that time, and they have handled them magnificently.

Like me though, they know that we have not always got it right when it comes to IT, and today I want to talk a bit about what we have learned and what I, as a CEO, have taken from those experiences.

I want to reiterate, I think we have got a lot more right than wrong, but there is always a better way.

As many of you may know, Bank of Queensland has swum against the tide in many ways since I took over as Managing Director and CEO in April 2001.

Much of what we have done has now become industry standard, but it certainly wasn't that way when we started.

For example, we opened branches, lots of branches, while almost everyone else was still closing them down.

Firstly we opened 50-odd new branches in Queensland, taking us to our current number of 140 Queensland branches.

Then we started opening branches in New South Wales, Victoria and the ACT, where we now have almost 50 branches. In the next month or so we will open our first in Western Australia and, not long after, the Northern Territory.

Our branch expansion has been a fundamental platform of our overall expansion strategy.

To prove to you how important the changes we instigated to our IT network were, we wouldn't have been able to open a single interstate branch if we hadn't replaced our old computer network.

That's right. Due to state-based BSB numbers and how our 25-year-old previous network had been set-up, it was like what Y2K could have been if it had lived up to the hype – we were incapable of punching in the necessary numbers to operate outside of Queensland.

But as a result of the changes we have made, we now plan on having 75 interstate branches by the end of August this year, and more than 100 by the same time next year.

We also had no real way of counting the number of customers we had because the system was account-based, rather than customer-based. This made Customer Relationship Management very difficult because we had no “one view” of the customer and the accounts they already had with us.

This made it very difficult to suggest or sell new products.

Our IT portfolio was just never geared for growth. Our 25-year-old home-grown core banking system was great in its day, but was simply not capable of supporting interstate operations. It simply wasn't going to make the cut. Many of our other systems were also out-of-date and required new hardware, updated software and applications.

We recognised that to achieve our goals, we had to undertake a major program of transformation of our applications and infrastructure; including a replacement of our core banking system. The scope of the change was so great that we would change more than 97% of our business processes within two years.

This was a huge undertaking for a retail bank, unparalleled in our market, but one which we knew was crucial if we were going to realise the potential of our business strategy.

Our plan was to put in place a portfolio of IT designed and built directly for the purpose of delivering our unique owner-manager model faster, better and cheaper than anyone else could do.

Our owner manager model is a source of competitive advantage. But it's matching IT portfolio is what makes it sustainable. No-one in our market can easily replicate this – it will take them years to be in the same position that we are in today.

This is how we use IT to contribute to our results. We have created a sustainable competitive advantage through the combination of our unique owner-managed model and an IT portfolio built around making it happen. You can copy the model, but if you can't execute on it, it won't deliver you the same results.

At the same time as focussing on growing our reach to customers through our roll-out of our unique owner manager model, we also recognised that we had some pretty significant product gaps that needed to be filled – and filled quickly. We needed to rapidly increase the range of products and services that we offered our customers.

To drive growth in our range of products and services, our IT team has put together an application portfolio that is agile and flexible enough to be changed dramatically and quickly with managed risk and cost.

To me as CEO, that means that we can get products out there faster than the competition can. In fact, over the last year, we were enhancing a product every seven days. That's an enormous effort but it couldn't have happened without good people and good planning. I'm even happier because they have reduced the cost of product enhancements by over two thirds in the process.

We also replaced our entire ATM fleet, relocated our corporate headquarters, introduced new Voice Over Internet Protocol (V.O.I.P.) telecommunication systems for our head office and launched internet and phone banking, two pretty fundamental tools for a modern bank which BOQ didn't have until 2002.

And we launched a 10-year outsourcing agreement, which we have since extended for another two years, when many others in industry were questioning their agreements.

We have also withdrawn from using mortgage brokers while our competitors have dived in with both feet, and we instituted the only franchise-based branch network in Australian banking, or for that matter, the world.

So, we did things differently from our competitors, and still do. But it has been revolution as often as evolution, and we haven't stopped yet.

Our in-house ICT team led by Jennifer Heffernan has been instrumental in ensuring all these major implementations occurred.

The largest of them all was the Core System replacement which we undertook in 2004. A \$40 million program two years in planning and impacting on 97 in every 100 processes in the bank, it is the most fundamental core IT banking system replacement ever undertaken by an Australian bank.

To change so much, at once, and on such fundamental levels, was certainly something we needed to do, but it was also something which had the potential to prove disastrous if we got it wrong.

The good news is, we didn't get it wrong. However, it's fair to say that we also underestimated the impact it would have on our customer base, and the frustration it would cause amongst our staff.

So, **my first lesson** from such an all-encompassing and radical change in the way that your business operates was: It doesn't matter how much, how long and how well you test for such an implementation, it's not real until it's real.

As I said, we started planning for this in 2001, starting rolling out communication to the team in 2002 and started training in 2003.

To this day I wonder what more we could have done to prepare for the change. And yet, we still faced implementation issues which were unforeseen just to the sheer breadth of the changes instituted, and how they inter-played with each other.

Until we put out the changes to the network, particularly one as complex as the modern financial services network, it isn't final.

My second lesson was: You can not prepare your staff too much.

In the months leading up to implementation we rolled out a massive internal communication program including a bi-monthly staff magazine, and three CD-Roms of information, training and interviews with key executives, along with a plethora of supplementary material.

We undertook training, to one degree or another, of every customer-facing staff member in the Bank.

And before that we trained everyone who supported those customer-facing staff, such as our call centres, customer relations units and branch support departments.

One of the major issues we didn't understand prior to conversion was the resistance of staff to the change – not active resistance, but passive.

In other words, people who had worked on the one system for 20 years trying to do the same things they had always done with the new system, rather than shifting mentally and, often, emotionally, to the new, better system.

Sometimes, no matter how much training you have done, staff immediately and instinctively shift back to what they have always done once a customer is in front of them.

This then brings up the garbage in, garbage out issue, and exacerbates system problems you may be experiencing.

In our case, it wasn't just a matter of training, it was a cultural shift. That shift has now occurred but, like all change, some deal with it better than others.

My third lesson was: You must adjust your communication to changing conditions.

To quote Sun Tzu:

"In night battles, you must use numerous fires and drums.

In day battles, you must use many banners and flags.

You must position your people to control what they see and hear"

One of the challenges we found was that, when we did have a network issue, sometimes we didn't know how long it would take to be fixed, or it was fixed before we could communicate the problem to either our own branch network, or our customers.

Surely it is good if it is fixed before you can communicate the problem, I hear you all saying to yourselves. Not always, is my answer.

Often we found ourselves with internal or external comms drafted and ready to go, but the problem had been fixed. It may have taken 24 hours, which had impacted on many customers, but it was still too fast for us to turn around communications – particularly those directed at customers and which needs legal and compliance sign-off etc and then must be mass produced before it can be distributed.

Other times the sheer complexity of the issue meant that, even had we wanted to communicate to our staff so they could better deal with customer complaints, we did not know how or when the problem would be fixed.

Communication was an ongoing issue for us. Customers who felt they were being let down combined with staff who didn't have the answers was probably one of our most serious issues throughout the implementation.

My fourth lesson is, customers do notice!

Bank customers are, as some of you may have noticed, not always happy with the service they receive.

At Bank of Queensland we have prided ourselves on the service we provide, and constantly strive to improve it.

That is somewhat damaged if your customer is standing with a full trolley at the Woolies checkout and their debit card doesn't work. It is also stretched if the ATM machine is down. Businesses are particularly unhappy if the internet banking system is down.

All of these things regularly happen to all banks, but they happen more and all at the same time when you are replacing your core banking system.

It is fair to say that I will never know how many customers we lost during the implementation because of IT and training issues.

However, I will be forever proud that it was not as many as it could have been. Our team, both on the IT side, and, particularly, on the front line were incredible in dealing with occasionally irate customers who had justifiable complaints.

I honestly believed that, due to BOQ's people, we probably sustained less customer leakage than almost any other financial services institution would, or could have, due to the unique relationship we have with our customers.

You can not take them for granted, and they do know when you have stuffed up, but they will forgive you if they believe you are trying your best. We had such a relationship with our customer base.

It was a humbling revelation from our side, and one we will continue to live up to.

My final lesson was: Never again!

I for one know that, as a CEO, I only have one Core System Replacement a lifetime in me. I didn't have a grey hair before it, and, as you can see, I have a few now!

I think my team, BOQ, EDS, FiServ and others, would probably agree that they would never want to go through another one with me either!

While every good CEO understands that calculated risk is a basic tenet for success, CEO's also need to understand the impact of these risks.

Very few corporate CEOs are ICT experts – they must rely on those advising them to know how such major decisions will impact the business.

This is a frightening thing for most CEOs, who desire understanding and, in fact, expertise in areas which touch on their business in such a dramatic way.

A CEO needs an IT expert who does not hide behind technology jargon. Unfortunately, skilled, business-oriented technology strategists are in short supply.

If I have a lesson for the ICT industry from the Bank of Queensland experience it is – you too can communicate better.

It is not enough for you to know it will work, you must convince others as well. The old magic tricks of 200-word reports and 17-letter acronyms will no longer work, particularly for those in consulting roles.

After all, I had Jennifer interpreting for me in some of these issues, and so I was lucky.

I also have a message for CEOs – keep asking questions until you do understand what is going to happen – ignorance is definitely not bliss when it comes to information and communication technology.

Your IT expert must not only understand your business but also have a complete view of the organisation and its IT systems. They must also be able to tell you what it means to you as the CEO. This role is particularly important if you choose to outsource. Your expert also needs to understand the changing world of technology and its potential to disrupt your business. You can't outsource this role.

So, almost two years on from our implementation, how are we placed?

Well, we have a computer system which is now the envy of our competitors. It is the most modern in Australian banking, and has a wealth of untapped capacity.

We can move faster and with more flexibility in the market than any of our banking competitors, with product turn-around, for example, up to twice as fast as our competitors.

We have a customer-focused system which frees up time for our staff to give better service, a key platform of BOQ's point of differentiation in a complex and competitive market.

We have an upgraded internet banking platform, branches across the eastern seaboard, launched a new INTRAnet, the second-largest bank-branded ATM network in the country, the capability to absorb three acquisitions in 18 months and so much more.

But the most important thing is, we have a living, breathing ICT network which still undergoes constant transformation and improvement.

It has underpinned the bank's rapid expansion, and been a major contributor to our financial success over the period.

So, your IT expert must not only understand your business but also have a complete view of the organisation and its IT systems. He/she can tell you what it means to you as the CEO. This role is particularly important if you choose to outsource. Your expert also needs to understand the changing world of technology and its potential to disrupt your business. You can't outsource this role.

So, almost five years on, since I started at BOQ, how are we placed?

To again quote Sun Tzu:

"Small forces are not powerful.

However, large forces cannot catch them."

Today, we can open branches, faster, better and cheaper than our competitors can. We have a new core banking system, which we continue to enhance the value from. We have the second-largest bank-branded ATM network in the country. And we can launch new products faster to market whilst reducing the cost of doing so by over two thirds.

We're shortly to enhance the range of services that we offer, particularly to our important small business customers, through a great new internet banking service,

But the most important thing is, that these things cannot easily be copied by any of our competitors. The combination of our unique business model and a matching technology portfolio has delivered us a strategic competitive advantage.

A CEO can't ask for a better thing than to gain a window of opportunity to grow a business knowing that others cannot readily or easily copy it.

Let me take this opportunity, on the eve of my fifth anniversary of joining the bank, to outline some of the success that we've gained so far.

For example, in 2001 our net profit after tax was \$24 million, while in 2005 it was \$92 million.

In 2001 our cost-to-income ratio was 72.9 cents in every dollar, compared to 63.9 in 2005.

In 2001 our cash earnings per share was 38.2 cents, and in 2005 it was 70.2 cents.

With that growth has come subsequent growth in expenses, from \$124 million in 2001 to \$213 million in 2005, and as I said earlier, about a quarter of that is ICT-related, although some is obviously also volume related, and we have far more customers and transactions than we had five years ago.

For example, in 2001 our loan approvals amounted to \$2.8 billion whereas in 2005 they reached \$7.5 billion.

Our assets under management of almost trebled over the same period, from \$5.2 billion to \$14.3 billion.

And the share market has rewarded us for the growth. Our share price in April 2001 was \$6.03 and now it is around \$15.

Our market capitalisation five years ago was \$400 million and now it is almost \$1600 million.

I wish I could give you more up to date information, but as our interim 2006 results are to be announced on April 6, I must keep everyone in suspense a few weeks longer.

But the most important point to make is that, despite our financial success and after some tough times, our staff and our customers are better off and, after all, that's what it was all about.

I should probably leave you with some of the bad news going forward.

CEOs have now figured out that there's no magic to IT – what matters most is people - your people and the people they deal with in the industry. After all, we all use pretty well much the same hardware boxes and software, and maybe even the same service providers. How else could we at Bank of Queensland have achieved things so differently from the others?

The real difference is made with your leadership and your team. You have to lead them with where you want to take the business. It has to be crystal clear to them where you want them to go. And your technology guys need to have the skills and dedication to put the right things in place to get it there faster, better and cheaper.

We couldn't have achieved what we have without having a very clear vision of where I wanted us to go and having the right people in my company, who knew how to get going and do it.

This means having the right people in all the parts of my business – and this includes my technology team - they are as much a part of my business as any other team.

So there's a message for you in the IT industry - in assisting your clients with business change, never forget the importance of people. Look to your people, the people in the companies you support and to their customers – and of course don't forget the CEO.

After all, CEOs are people too.

Thank you.