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Speech notes

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Thank you for inviting me along today.

As a banker, I often talk about numbers.

Today, speaking to a room full of Chartered Accountants, I thought I would talk less about numbers, and more about Managing the Momentum of a growth company in an extremely competitive industry.

I will speak of Managing this Momentum from the point of view of Bank of Queensland, obviously.

But I will also speak of managing the momentum from the point of view of the various levels of government and their regulators, which must also deal with the challenges of a fast-moving, constantly evolving finance sector, and how this growth in size and complexity should be managed.

More on that later.

I know many of you here, either directly as very happy shareholders, or indirectly as followers of the finance sector and Queensland companies, will be aware of the short history of the 130-year-old Bank of Queensland.

Just in case you have not heard it though, it would make a great movie.

Something akin to Braveheart or Gladiator in its depiction of battles against adversity, up there with Brokeback Mountain or Crash with the discrimination faced in an industry where big is best, in line with the underdog stories of Rocky or Cinderella Man, as moving as Schindler's List or The Shawshank Redemption.

Ah yes, the BOQ story has much to offer.

Ok, I have had my flight of fantasy.

Rusty or Mel Gibson I may not be, but still the story of Bank of Queensland is one which highlights the importance of stepping outside the expected norms for an industry and instead looking at that most basic, that most simple of questions.

Like, what does the customer want?

When I became Managing Director of BOQ in 2001 I asked that question, and realised that BOQ obviously wasn't answering it that well. We had one of the most identifiable brands in the State yet only six per cent of Queenslanders actually banked with us.

Our branch network was smaller than any other bank's despite the fact we were only in Queensland.

Some would ask why would I leave a senior position in a major bank I had been with for more than 30 years for the challenges which Bank of Queensland offered in 2001.

It came down to one word – potential.

Bank of Queensland had enormous untapped potential, and still does in my opinion.

After looking closely over a number of years at what had been happening in the American retail banking network, I had an idea that the bank branch was making a comeback, and that BOQ was perfectly placed to tap into the customer malaise in the banking sector.

It had a strong brand name in its home state, lacked scale and reach, but also had an old-fashioned agency model which had the potential, like all good caterpillars, to become the BOQ butterfly and the engine of our future growth.

With my team of executives, like Group Executive Retail Donna Quinn, we took the old agency model and turned it on its head, creating the genesis of the franchise model we see today.

We called it the Owner-Managed Branch model, or OMB, and it provided the platform for rapid expansion at a relatively low-cost to a bank that needed every cent of available capital to meet the growth forecasts we had set.

This OMB model allowed us to expand from 93 braches to the 140 Queensland branches we have today, matching it with the big four and Suncorp when it comes to branch presence in our home state.

It then allowed us to open 56 interstate branches on our way to 75 by the end of August this year.

Out of almost 200 branches we now have across the eastern seaboard, Perth and Darwin, only 56 are corporate branches owned by the bank.

Even these corporate branches we are reassessing to see whether they can be turned into owner-managed branches. Our first to undertake this change, Aitkenvale at Townsville, has been an outstanding success.

So, where did all this rapid change in the first few months take us?

Having just celebrated my fifth anniversary of joining the bank, it seems a worthwhile time to look back and outline some of the growth we have seen in that time.

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.

In 2001 our loan approvals amounted to $2.8 billion whereas in 2005 they reached $7.5 billion.

Our assets under management have almost trebled over the same period, from $5.2 billion to $14.3 billion. As of the end of our first half this year that had grown to $15.9 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 around $1600 million.

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

The challenge, of course, in returning to the premise of today's speech, is in managing such growth, and keeping your eye on the future prize while ensuring you are not too distracted by the day-to-day issues.

Because this has not been evolutionary change, this has been revolutionary change.

Change to **culture**, change to **infrastructure** and change to **perception**.

Culture

As Indian nationalist Mahatma Ghandi said: "No culture can live if it attempts to be exclusive."

With our culture we had to change from being a sleepy regional bank content with our lot to a powerhouse, service-orientated sales force which could match it with the big banks on product and delivery while exceeding them on reputation and service.

And we had to bring our people with us, staff and customers.

We had to become the "other bank" so that customers saw us with all the strengths of a bank without the weaknesses of perception which were wracking the banking industry in the late 90s and early this century.

That meant having a small bank culture but combining it with big bank products. We had to match internet and phone banking, we had to match business banking, we had to match lending and deposit products and we had to grow, quickly, while achieving these goals.

Culturally that meant we had to bring the people with us all the way, convince them that this was not just a flash in the pan strategy or a new tagline on our advertising, but a fundamental shift in who, and what, we are.

This does not happen quickly, but it can be taken back to a simple premise, one which we have followed in our external dealings with analysts, the media and the investment community.

Say what you are going to do, and then do it.

From my first days at Bank of Queensland I have told the people who work under its brand what we are doing, why we are doing it and when we are doing it. I have then made sure we did it.

In this way there can be no illusions about the direction of the bank. We set the targets high, and sometimes we don't quite reach them to our satisfaction, but no-one is ever in any doubt what they are or where we are going.

This has led to some internal cultural developments which some CEOs would, I know, find difficult or even ridiculous, but to me they are a vital part of the culture of the bank.

For example, I make myself extremely available to my staff. Whether it's the monthly staff hotline where anyone in the bank, either direct employee or franchisee or employee of a franchisee, can call me with complaints they can not get attention on or with ideas on how to make the bank better.

I undertake staff roadshows twice a year where I speak about what we have achieved, and what we intend to achieve over the next six, 12 and 18 months.

Just as importantly, I mix with the staff after each roadshow – here in Brisbane, in Sydney, Melbourne, Cairns, Townsville, Mackay and Bundaberg – and hear directly from them what is going on in each area.

I have regular staff focus groups where a cross-section of employees and branch owner-managers come together around a sandwich lunch and shoot the breeze on selected topics – but most particularly, what can be done better.

We have the more traditional offsite conferences too for our staff- the annual sales conference and the conference for our top achievers, both within head office and from our networks.

And finally, I visit branches. Every week I get out there and see how the frontline is doing it, speaking to staff and customers to ensure that there is no ivory tower syndrome at Bank of Queensland.

So, while the bank reinvented itself, so the culture also evolved. I was lucky in that there was already a culture of serving the customer, which put me well ahead of some of my banking competitors, but it had to be pointed in a new direction.

That culture is not just about service – it is also about achievement. One of the things the OMBs brought into BOQ was a sense of entrepreneurship.

Now that word has had some bad press in Queensland in the last couple of decades, but it is the right word when talking about how our owner managers are invariably over-achievers in banking.

They are former managers, private bankers, business and commercial bankers from other banks across the country who wanted more – they wanted a return to servicing customers for sure, but they also wanted the opportunity to grow their own business.

That culture amongst our franchisees or owner managers has fed back into our organisation, making us a sales force to be reckoned with, a sales force which, pound for pound, is unmatched anywhere else in Australian banking.

Infrastructure

According to Kahlil Gibran in "The Prophet": "The most solid stone in the structure is the lowest one in the foundation."

And so from culture we go to infrastructure. The problem was, it wasn't enough just to change the culture of the bank, we also had to give this new culture of achievement and growth the right tools and the basic infrastructure in which to achieve their potential.

And that infrastructure was far more than just the bricks and mortar of new branches. What many don't realise, for example, is that BOQ also has one of the fastest growing business banks in the country.

Business banking, which now account for about 40 per cent of our loans under management, was a miniscule part of the bank in 2001.

At the end of the 2001 financial year BOQ had $1.2 billion in business/commercial loans under management. In the 2005 financial year this had grown to $4.4 billion.

That's a jump of almost 400 per cent, to the non accountants in the room.

This growth did not just come through hiring more bodies, or writing risky loans - our asset quality has actually improved over this time.

It came through understanding the gap, the opportunity in the market for a return to genuine personal service, and exploiting that opportunity.

We had just one business banking centre in 2001, and we now have 14 across the country.

Infrastructure is not just bricks and mortar, it is everything it takes to support your mission, your vision and your people in achieving that mission.

So, it includes branches and business banking centres. It also includes acquisitions in the business banking area such as UFJ equipment finance and Orix's debtor finance business, both of which have greatly added to our suite of business banking products, and the reach of our business.

Obviously though, when I talk about infrastructure, I also talk about what most of us would expect.

The major infrastructure investment by the Bank in the last few years has been in our IT system. In 2001 our core banking system was almost 25 years old and our ATM fleet was the oldest in the country.

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This created more than just day-to-day servicing problems - it meant, for example that we couldn't open a branch outside of Queensland because the system would not accept interstate BSB numbers.

It was our own little Y2K conundrum, but without the hype.

So we spent $40 million replacing that core banking system. This is something no Australian bank had ever attempted before – replacing its entire banking platform in one hit.

It's certainly something I wouldn't want to try again in my lifetime either, as it was extraordinarily complex, and, at times, very difficult for us, our staff and our customers.

But it is done, and while we still manage the challenges of growing as fast as we are and the demands that brings to our IT platform, we now have the most modern core banking system in Australia.

This was a foundation stone of our growth going forward, and highlighted how important it was for us to provide the tools for our staff, leading to the products and services for our customers.

This IT stone, combined with the OMB stone, the business banking stone and the cultural change stone, laid the foundation for the growth which has followed.

Infrastructure.

However, perhaps the most important of all the foundation stones we laid back in 2001 was the most difficult – the people.

Employing the right people has been a key to our success. Not just finding them, but attracting them, making them want to come to us.

I can tell you, without a shadow of a doubt and despite the relevant cost-to-income ratios, that Bank of Queensland runs lean and mean when it comes to the number of people doing the respective jobs.

We have to, we don't have the scale of a NAB or a Wesptac to soak up extra people on the bottom line.

So it is even more important to us to make sure we have the right people. I have been blessed with some fantastic people at BOQ over the last five years – on my executive, but also across the bank.

What has also been particularly rewarding to me has been the people who have joined us on the way, attracted by our story, and wanting to join the underdogs in creating something different, something unique in Australian banking.

So infrastructure takes many forms when you are in the service business, but none are more important than the people who make up that business because the most up-to-date computer in the world is still just an idiot waiting for a key punch.

Perception

"Perception is strong and sight weak. In strategy it is important to see distant things as if they were close, and to take a distanced view of the close things."

That insight about perception by Miyamoto Musashi more than 350 years ago holds true today.

It is just as important to step back and see the big picture as it is to focus on the detail.

Micro-management is not a good thing, despite what some may tell you. I know I have been guilty of it on occasion and sometimes, as leaders, it is almost impossible not to fall into the micromanagement trap.

But perception is all about keeping enough of a distance to see the road ahead, while also understanding, experiencing and occasionally indulging in the day-to-day issues which beset your staff and customers.

As some PR types like to say, "perception is reality" these days in business as, all too often, we can see erroneous perceptions create completely unfounded realities.

Just as importantly, we have seen in the last two decades here in Queensland, and across Australia, occasions where the external perception of a company has hidden some rotten secrets.

Therefore it is no longer enough just to be seen to be doing it, you must actually be doing it as perception is now more than just skin deep. In businesses, as in sport, this is often called walking the talk.

At Bank of Queensland we knew that to adjust the perception we had to adjust the reality, and then tell everybody about it, more than once.

The simplest way for us to do that was to talk about what we were doing. We were opening branches. Bank branches I mean.

It created quite a stir.

Unprofitable, said the analysts. Unlikely, said the media. Unhinged said some of our industry colleagues.

We believed in the strategy though. We had the right model, we had the right people, and we had a brand which was warmly liked, if grossly under-utilised.

So, we opened a few branches, and then ran a campaign called, of all things, “Opening Doors”.

In this campaign we ran TV ads with people going in and out of branches, all with the names of new branches on the door. It was simple, but effective.

And it was absolutely counter-intuitive to anything the other banks were doing at the time.

It had an impact both internally, and externally.

It signalled a change in the way the bank operated, and how it wished to be perceived.

Good service was not an end in itself, it had to be matched by a cultural shift. For perception to truly be reality, the BOQ team had to believe it as much as the public and our customers.

Belief by the market analysts, institutions and retail investors would follow.

Perception was important for the market too. Our model did not fit the market analysts’ models used to gauge the value of banking stock. We were so outside the box they didn’t know how to rate us.

So it took a number of years of achieving the results we said we would, of growing exponentially compared to the banking sector, before many of the banking analysts took us seriously.

Their perceptions were not helped by our competitors who, at first scoffed, and then quietly questioned whether opening branches in itself was a good thing in the economic environment.

So, we had to battle those perceptions too.

Obviously, we were successful, but it was not always easy.

More recently we have taken the Bank of Queensland brand interstate, and believe me we had some serious thought before hand about how we would be perceived south of the border.

Interestingly, those who most believed the brand might not work interstate were the native Queenslanders.

In fact, our research indicated quite clearly that people in New South Wales and Victoria did not give a hoot what we were called, as long as we delivered on our promise of local knowledge and excellent service.

Our other clear advantage as a bank moving into new markets was that we were not transferring Queenslanders to work at Parramatta or Frankston, we were forming partnerships with local bankers who took on the franchise as owner-managers.

So it has not been a brand-led friendly invasion, but a people-led expansion into markets which have accepted us willingly because our people have done the work and spread the word.

The interstate expansion is still in its infancy, but at the same time is a fast-growing contributor to our bottom line and a key platform in our expansion. It was also a key step in changing interstate investor expectations of BOQ – now they know we can cut it outside our home market and that the world, or at least Australia, is our banking oyster.

The future

And, finally, to the future.

While I believe Bank of Queensland has managed the momentum of its growth over the last five years well, the challenge of managing it into the future is still with us.

Some of those challenges are well within our control.

Others will be external. These include such things as competition, both domestic and international. It includes changes to customer needs and desires. It includes economic challenges and those facing our society.

And, perhaps closer to home for many of us, it includes challenges from government and regulators which can impact on our business.

Because government and its regulators often face the management of momentum, of change, differently from business.

Their pressures are not necessarily market pressures. They are the pressures of the electorate, of the media, or lobbyists and interest groups.

That is not to say they are any less stressful, but they are different. Regardless of their foundation, government and regulators can have a dramatic impact on all of our businesses.

This means looking at ASIC, APRA and the RBA and how they are managing the momentum which has gathered in the finance sector over the last five years. It is momentum driven by competition, despite what some senior politicians may say, by technology and by the overdue realisation by the big banks that service is a genuine differentiator in the finance industry.

Because there are two key questions we should always ask when it comes to introducing new regulation:

- Does it lead to better protection and information for shareholders?
- Does it lead to better protection and information for customers?

Of course, the third, often unasked question which overhangs every piece of new regulations is:

- Is the cost to those shareholders and customers commensurate with the benefit?

It is interesting to look back at reforms such as the Financial Services Reform Act, International accounting standards and the upcoming Basel II and ask these questions?

I know they make a lot of money for accountants and lawyers, so I am sure most people in this room think they are not all bad, but I just wonder whether they have significantly improved the lives of shareholders and customers of financial institutions.

Whether it is the RBA’s treatment of interchange fees, or APRA’s proposed treatment of capitalised software or the challenges of capital treatment under Basel II, those three questions should always be asked, and answered, so that we are not seen to be regulating for regulation’s sake.

After all, none of us would like to think we are just constantly covering ourselves for the what-ifs just so that no-one could be accused of doing nothing the next time there is another HIH or, God forbid, Westpoint.

I am sure that's not the case.

So while the banks are regulated, regulated and then, just to be sure, regulated again, we have situations like Westpoint and the mortgage broking or financial planning industries which seem to sale blissfully on, tickled but barely touched by the regulation stick.

Don't get me wrong, I believe the finance sector should face stringent regulation to ensure it continues to meet the high standards it has set in Australia over the last fifty years.

After all, I believe much of the wealth and prosperity of Australia in the second half of the 20th century can be put down to its robust, competitive and extremely strong banking sector.

But we must ensure that these regulations actually achieve what the community demands, and do not just insert layer upon layer of bureaucracy and cost to the process of doing business, taking out a loan, or making a deposit. After all, this all gets passed on to the consumer eventually.

Banking has certainly undergone some change lately in this sphere, and I do not believe all of it has achieved the goals they set out to achieve.

And I don't want you to think I am singling out our regulators. There is then the media and some politicians who still find bank-bashing a national sport.

Like the constant publicity surrounding bank fees.

Yes, banks charge fees. Everyone in the service industry charges fees. Your lawn guy charges fees, your phone company charges fees, your hairdresser and your doctor all charge fees.

The fact of the matter is that in these days of low margins and rampant competition in the lending and deposit spaces, banks must charges fees to remain profitable.

At times, these fees may have been too high but, like all good markets, the Australian finance market shifts, adjusts, finds the competitive level and then squeezes it like hell.

I know there is always a lot of talk about fees, but competition is driving some fantastic results for consumers in the finance sector at the moment.

Look at Bank of Queensland alone. We have a transaction account in which, should you maintain a balance of $2000, not only will you not pay any fees on the account, but we will pay you $2 a month.

You can combine that with an online account which is virtually full-service, even to the extent where you can deposit and withdraw funds from it in one of our branches and it has ATM access, and it also can be fee free.

We have low-rate credit cards which charge less than 10 per cent interest and have a $49 annual fee.

We have our own branded national ATM network of more than 2000 machines across the country so you don't have to pay a foreign ATM fee.

And the competition around fees is only increasing. Combine this with tightening margins, extremely competitive deposit rates and more access and versatility in how you use your money than ever before and it tells a pretty good story for the banking consumer going forward.

Despite what some would like to think, these are not the bad old days of the 90s where the big banks slashed workforces, closed branches and tried to force everyone to use internet and phone banking.

In some ways I wish those days were still around because it made the job of small banks like BOQ easier.

However, we live in a consumer-age, where the consumer makes the rules. Even the big banks, which forgot for a couple of decades, have figured it out.

People want service.

People don't necessarily love call centres.

People want internet banking, but they still want to talk to a human being some times, particularly when making the big decisions of life like a new car, a new house, renovations or depositing their life savings.

People want low fees, or no fees, but they want full access accounts with all the bells and whistles.

But most of all, people are no longer just people. Different generations, different demographics, different genders, different expectations, different demands.

People, most of all, want personal choice that fits them, and their lives.

Just like they have personalised mobile phones, ipods which give them just the music they want to hear, cable television that gives them the channels they want to watch, holidays designed for their desires, restaurants to match every culinary choice and cars of every conceivable colour.

People want personalised service. Keeping up with the Joneses still takes place over consumer goods, but now it is much more about what little personal touch we all have that others do not have.

Anyone, banks, car makers, home builders and yes, even accountants, who fail to take into account this new paradigm of personalised products and service will be left behind as we move into the second decade of the 21st century.

So managing the momentum going forward is going to be different, but just as challenging, as managing the momentum has been for the last five years.

Because none of us operates in isolation. When we speak of momentum, we speak of ourselves, and our companies, but we must be aware of the momentum of the world around us as well.

In the finance world there has never been so much momentum. Never has the market been more challenging, never has change come so quickly, never has competition been so fierce.

The key to Bank of Queensland continuing to thrive in this environment is to never settle for success.

Author Jim Collins in his book “From Good to Great” outlines the problems we all face in trying to take that extra step up.

In that book the author outlines a simple philosophy, but one which resonates with me.

He states that the biggest threat facing any company is to become good. Another way to say it is that “complacency is death” for any company, just as it is for any sporting team.

He says, and I quote: “Good is the enemy of great. And that is one of the key reasons we have so little that becomes great.

“We don’t have great schools, principally because we have good schools. We don’t have great governments, principally because we have good governments. Few people attain great lives, in large part because it is just so easy to settle for a good life.

"The vast majority of companies never become great, precisely because the vast majority become quite good – and that is their main problem."

I think it is a fantastic assessment of why many fail to achieve the goals they set or the reaches their talents made possible.

In fact, we have seen that even stopping at great is not enough.

In the sporting arena we have seen in with the Brisbane Lions recently, and the Brisbane Broncos in the early 200s, that, if you achieve greatness, your competition will adapt to meet and then beat that greatness.

It happens faster than ever before.

So, to become good at what you do is therefore the greatest threat to a company.

You must always strive to be great at what you do.

It is a treadmill of renewal, a race without a finish line, a journey without end.

At Bank of Queensland it is a challenge we have relished, and look forward to going forward.

Managing the momentum is an integral part of that challenge.

Thank you.