National Australia Bank

7 April 2010

Edited text of the address given by Cameron Clyne to the Australia-Israel Chamber of Commerce (AICC)

Thank you

It became pretty obvious to me what to talk about in this address just a couple of weeks ago. I was sitting at the airport and my mobile phone rang. And I saw it was my parents' house. So out of instinct, I picked the phone up and said, "Hello, Mum." To which the voice said, "No, it's your father." Well, this is rather serious – my father is calling me.

And he said, "How are you?" I said, "I'm superb, excellent – never been better." I said to myself, "Not only are you calling me, but you are calling and asking me about my welfare. This is a particularly serious issue." I said, "What's the problem?" He said, "Well, everyone seems to have an opinion on what you're doing. I need to ask, you seem to be getting kicked around a bit. How do you feel about that?"

And I said, "The interesting thing is, I could not feel more optimistic about the progress we've made in the last 12 months, or about where we're going as an organisation. An optimism not just shared by me, but shared by the management team." And I said, "Let me tell you why." I said, "A lot of people are trying to declare victory; but we are way, way, way away from that. In fact, I think we're about halfway through the second quarter."

What's occurred over the last 18 months and John's introduction brought some of the memories back to me with mention of those names; but what's occurred over the last 18 months has been an extraordinary shift in the Australian Financial Services landscape. We've had mergers; we've had consolidations; we've had stimulus directed at first home buyers; we've had government guarantees on retail deposits; we've had government guarantees on wholesale deposits; we've had balance sheets change structure, funding requirements change; we've had the way the banks have dealt with their customers, particularly business customers, change. By and large, what you see now in the landscape is broadly fixed for a period.

But the interesting thing is, the variable components have only just begun. Hence my analogy that it is only halfway through the second quarter.

Now, the shape of the banks as you see them now, the consolidations that have occurred, the way banks have treated their customers in the last 18 months, their balance sheet structure, their funding requirements and other things, can't be undone. And what's coming at us now are the variables, the regulatory change, the forces for competitive pressure; whether or not the government will intervene. And how customers, and particularly business customers, might react to institutions over the way they were treated over the last 18 months.

We have this very interesting situation; we've got a fixed structure that's emerged over the last 18 months about to collide with a whole series of variables we don't know about yet. If people almost on a daily basis are ready to declare victory, the true pecking order, the true way this will play out is in fact some way off.

You can't control the market; all you can do is control your response. And you hope you position your organisation, as I hope that we've done at NAB, into the best possible position to deal with that.

But the interesting thing is, the future landscape, and the future successes, will actually not be known for some years, until we see that layout. And today's winners may not necessarily be winners. And therefore, how can you not feel, somewhat optimistic if you've navigated the bank in the best possible position? But we're not even close to the siren on that particular issue.

Then I went on to say, "Let's come back to NAB. Let me talk a little bit about why my optimism is there." And really being a person of detail, I broke it down and said, "Well there are really three sections. Section One has four parts; Section Two has three parts; and Section Three has one part." And I explained what they are.

Section One is really about the operation and performance. Now on March the 12th last year – in fact, just two weeks before I spoke here at the Chamber – I had the opportunity to do a strategy update. At that point in time, we said, "We see our business in these four parts." The first part is businesses we feel are performing well and the returns in that section of the business are satisfactory.

The second section was businesses that aren't performing as well as they could, but the returns in that section are in fact quite satisfactory.

The third component for businesses operating in a challenging environment – we just wanted to make sure we got through that in a strong position.

And finally, with the fourth section, for businesses that were not meeting the satisfactory return criteria.

And really, over the last 56 weeks I guess, what we've really done is tried to deliver against each element of that strategy, and tick those items off as we go. As we sit back now, a year on as a management team, we feel we've made really quite tremendous progress, very consistent progress, against those four sections.

I come to Section One, which is those businesses we have a strong position in; and we like the returns from Section One. And the two I called out on March the 12th last year was our business bank, and our wealth business.

Now pleasingly, what we've done over the last 12 months is really support our customers in the business bank. In fact, when the statistics from APRA are taken, we grew net lending with the businesses of Australia by $5 billion over the 12 months, particularly that 12 months from September 2008 to September 2009, the critical periods to support businesses. When in fact, lending to the sector actually decreased by $28 billion.

So a real demonstration, we were out there supporting our customers when times were difficult. We hired 150 business bankers last year, and we intend to hire another 200 this year. In fact, when we put our ad in the paper late last year – to hire 200, we received over 2,200 applications, many of them from our peer banks, which is a wonderful validation that people see the NAB, and particularly our business bank, as a place they want to be. We are delighted to be CFO Magazine Business Bank of the Year, last year as well.

And in businesses with turnover greater than $5 million, we are also pleased to maintain the number one position in customer satisfaction for the last 14 months. We feel that definitely our business bank, which is one of the core strengths of the organisation, has really delivered against maintaining its position.

Wealth, obviously, we flagged, and John mentioned a number of the acquisitions we've done; but we do feel that our wealth business has been one of the standout performers. I'll talk a bit more about reputation later; but it's certainly been at the forefront of driving reputation. And it's very well positioned now to take advantage. What really is the challenge for Australia is facing into our demographics. We're not really in the position currently to fund the retirement needs we have.

I'll then move to the second section, which is those businesses where returns are satisfactory, but our position is not as strong as it could be. And we called out two businesses in that category – one was our insurance business, and obviously we've strengthened that through the acquisition of Aviva. The other one was our personal bank, our retail bank, which gets a lot of attention.

Now, I wouldn't be reading too much into one month's data; but we were delighted that after five years, we've grown above the system in mortgages in February. Which says to us the momentum is in the right direction. We took a number of market leading initiatives on fees; and I spoke last year about the importance of reputation, to see our transaction accounts now growing five fold, than they were a year ago. To see our customer complaints come down by half. In fact, fees no longer dominate the complaint register of our organisation.

The Challenger acquisition has finally given NAB a coherent position in the broking industry, after many years of indifference for third party origination; we finally made a statement that mortgage broking is an important part of the industry, and we need to be part of it.

For customers, we doubled our ATM network; ensuring we have the most unique number of ATM sites in the country.

So there's a long way to go for our personal bank; but the progress we're making is definitely there. In fact, pleasingly, whilst our customer satisfaction is not where we would like it to be, we've had the largest year on year move in customer satisfaction. And in fact, if you unpick some of the underlying trends, we're no longer fourth in every category; in fact, in the last 12 months, we've moved from fourth to second in Victoria, which is a real sign that our customer satisfaction is moving in the right direction.

We'll then go to the third category I spoke about last year, was about businesses who are in challenging markets. And we want to get through them in a stronger position. And those two markets we called out were New Zealand and the US.

Now, the US operation remains small; however, it remains profitable. In fact, it actually increased its profits year on year in one of the most difficult environments you'll ever see. We've taken very small opportunities to pick up deposits from distressed organisations. In fact, our most recent small acquisition, we secured deposits four times the loans we required to take on. So again, strengthening our business in that market.

In New Zealand, we remained the leading bank on many measures. In fact, we were delighted last year to produce the number one cash earnings figure on half the balance sheet of some of our peers. It's a challenging market having lived there for a couple of years; we feel we've got our bank in a very strong position in that market.

And finally, if I turn to the fourth section – businesses, as we said, a year ago weren't making a satisfactory return; and we called out those businesses, it was then known as NabCapital and UK Businesses. We created Wholesale banking, which was really a distinct way of saying to people, that operation would have a risk appetite consistent with an Australian Domicile of a Commercial Bank, and we segmented some of those non-franchise assets into a specialised portfolio, which we intend to run off over time. We put one of our most experienced bankers in charge of that; we disclosed in quite some detail a few weeks ago what is exactly in that portfolio.

With regard to the UK, we certainly said our core focus over the last 12 months has been Australia, and that's where it's been; and we said we would seek to look at opportunities, one way or the other, in the UK when the market became a little clearer. And at the AGM, I made some comments which I can reiterate today, which is that the bank is a high quality bank; Clydesdale's franchise is well regarded. And as the market starts to shake out there, we are seeing lots of people enquiring about how we participate, and we will continue to assess those options, but with one lens only, and that will be providing the right return for our shareholders. After 22 years of being in the UK, I think we have an obligation to ensure whatever decision we make is absolutely grounded in commercial reality.

So I kind of wrapped that up, and said, "That's kind of Section One. We've got our strategy; we've outlined it; we've four parts to it; and that's how we navigated our business." I said, "I'll move to Section Two." My father was still on the phone at this point. And, you know he grunted some acceptance of my logic. I said I'll move to Section Two.

Section Two is what you call the event issues. And we see three of them. AXA, UK and the runoff portfolio. He said, "Well the first thing is, those three things prey on uncertainty. People don't like uncertainty." The good news is that uncertainty is going to get resolved, one way or the other.

The first one is AXA. Are we going to succeed or not going to succeed? It's a pretty simple equation. Okay; we've got to go through some processes, and we're very delighted that we've got the agreement now about the APH Board and the SA Board. We've got to go through a process, and we'll go through that, participating in those discussions right now, and of course there are further issues about whether or not we need to raise capital. Those issues will be resolved, and that will take a degree of uncertainty out of the equation.

The second one is the UK. As I said, in my previous comments when you look at the portfolio, in one way or the other, that will be resolved. We'll either participate in consolidation to do something else, divest or whatever the case may be. And that situation will again resolve itself. Now people make their own choices about whether they like or dislike the outcome; but it'll remove uncertainty.

And the final point is of course our runoff portfolio, which I pointed out we disclosed in some detail a few weeks ago. Again, people will be concerned about will the world get worse; will that suck in additional provisions, or write offs, or other things. Well, the world seems to be getting slightly better; and I think we're all upgrading ourselves from cautious optimism to optimistically cautious – whichever way you want to do it. Because if the world gets better, obviously the risk around that portfolio diminishes.

So those three events, in one way or the other – which are clearly issues that people are concerned about – will naturally resolve themselves over time; but they are clearly having an impact on the things that we are focussed on.

And the final one, the final section to look at, is in fact just one part. And that's just the legacy. And we recognise – and our management team are front and centre on this, and we remind ourselves of it almost every time we meet – this organisation has a history of self inflicted wounds, often wounds the rest of the industry seem to have dodged. The first part of making change is acknowledging an issue. Now, pleasingly over the past 15 or 16 months, that has not occurred. We haven't had operational events and things that have occurred in prior years – I don't want to list the litany of them, because they're painful to remember – we don't forget them; but they're painful to recall.

Nonetheless, that hasn't occurred. And what we simply need to do – and only time will fix this – is put a degree of distance between some of those events. And that's what we've been doing over the past 15 or 16 months.

So when you wrap that up, we sit down as a management team and look at that, and say, "Well we feel we're sticking to our strategy against those four buckets, and we're making strong progress against every dimension. We feel we're on track to minimise or solve those event risks, if you like. We're putting time between what has been our last sort of unintended event." Then we do feel optimistic; and hence I think that the cause is legitimate in that sense.

Now, I wrapped the phone call up at that point, and didn't fall into the trap one way or the other of recommending shares. I just said, "That'll do, and hopefully you're convinced." And actually, he was; although I would suggest that he's not an objective audience.

The next point I just want to come to, though, is an important point I touched on a year ago in this speech, and that was one of reputation. And I said it would be a long journey, and we're committed to it. And it was something which was at the very core of our strategy.

And in fact, the last year, if anything, has only suggested to me the journey's going to be harder and potentially longer than I anticipated when I put that objective out here a year ago. But in no way are we dissuaded from pursuing that agenda.

And the reason being is this: It is sometimes wrongly characterised that we're pursuing an agenda that is customers versus the shareholders. It is not that at all. It is about customers and shareholders.

Now when you become CEO, you get lots of advice. Some of it is good, some of it is bad, some of it you asked for, some of it you just get. And the depressing thing really for me is, over the past 16 months, the two most common pieces of advice I've been given is, "Don't shake up the status quo. This is an oligopoly; just be quiet." And the other one is, "Banks will always be hated." What two more depressing pieces of advice can you possibly give someone?

The worst thing an oligopoly can do is in fact not recognise it has a broad obligation to a whole series of stakeholders. It is a licensed business. It relies on the goodwill of customers, its employees and yes, absolutely, its shareholders. Regulators, government – the whole series of other stakeholders. If an oligopoly blindly charges on, ignorant of his broader obligations to the community and all those stakeholders, it invites far greater intervention, than may otherwise have been the case, if it engaged in some responsiveness to concerns in the community. That's why we see this does not mean a question of customers versus shareholders; it's customers and shareholders.

We are very much informed by the decisions we took in our wealth business some three or four years ago, where we stood out and said, "The model is no longer sustainable. You cannot have a situation where trust and transparency is not at the very heart of providing good, quality financial advice. We need to move to a model that has fees; that has disclosure. Away from commissions; away from rebates and volume fees, and other things."

At that time, the very same comments were made. "Don't shake up the status quo." What's now happened? That model is simply not sustainable. We now have intervention; we now have inquiries, and a whole range of things. Now we're very proud that we've transitioned our business to one that's on a sustainable footing. But the reality is that will play out again.

If people think in a post-GFC world that life will skate on, it simply won't. And some of the most prominent business people in the world have been commenting in recent months, particularly banks; have to be mindful of their obligations to stakeholders of every dimension. And that's why we've charged down this reputation path very strongly, to say, "We will be a participant in this process, not a victim of it. We'll get ahead of the curve and do it in a proactive way."

If we're taking half the complaints out of the bank in a 12 month process, if we're opening five times as many new accounts. If our employees are responding in a positive way, we've got 2,200 people from our peers trying to get into our business bank. That tells us we're actually making progress, and this is the right agenda. If you marry that with the environmental agenda I laid out at the beginning, this game's not even close to over; we feel very strongly about how we're positioned.

But the second piece of advice I find particularly galling, "Banks will always be hated." Well if you say that, of course they will be. Now I'm not so ridiculously optimistic that I expect we're going to skip along and be one of the most loved institutions in the world. What we can do is recognise we're an important part of the community, important part of the business community, and play our role.

Now often people say, "It's actually not your front line staff. Actually, they're fantastic. It's you bastards in the corporate suite that actually make our life difficult." Which is exactly why we started by taking away the number one pain point they had been telling us for 10 years – by taking away the fees they spend an inordinate amount of time arguing with the customers about, when in most of the cases, the customer is actually right.

So we started by actually saying, "The journey to be a more respected institution is to actually deliver the savings to your front line staff, and deliver the very things they have been asking for."

So I won't accept that challenging the status quo is not the right thing for the shareholders; it absolutely is the right thing for the shareholders, and protects us from intervention. Nor will I accept that you can say the banks will always be hated, and soldier on without any regard to try and change that agenda.

As I said, banking is a licensed business. Its sustainability and success relies on the continuing goodwill with a whole range of stakeholders – customers, investors, markets, regulators, and governments. We intend to take those responsibilities seriously.

The focus is on reputation – it's not about customers versus shareholders; it's about customers and shareholders and delivering for both. The worst outcome for bank shareholders would be for the industry to charge on and not pay any attention to its broader stakeholders. This would ultimately only invite the potential for regulation that is far more onerous than is needed or justified.

Thank you.