

Banking and Finance Conference

Dinner Presentation 30 Sept

Banking, for Fun and Profit

Can I start by briefly thanking Deborah Ralston and Kevin Davis, the Centre for Financial Studies, Martin Fahey and Finsia for the opportunity to speak to you this evening?

Now, when I agreed to accept their kind invitation, the organisers asked me, not unreasonably, for a title for my address.

I suggested 'banking for fun and profit'.

This title was suggested with a healthy dose of irony, but, not surprisingly, irony doesn't really translate that well into the printed word.

At least, it didn't for one journalist, who expressed – or at least feigned – outrage in one of our metropolitan dailies, that there could be any sense of fun in banking whatsoever, especially when banks were making such huge profits, presumably at everyone else's expense.

I suppose it conjured up that old saying about 'laughing all the way to the bank'.

Now, I don't want to sound overly sensitive to such criticism – and it's not as if I 'm not used to it – but in case there is anyone in the audience tonight who is concerned I am not taking banking issues seriously enough, I've decided to retitle my address to you.

So please, if I accidentally say anything that seems newsworthy, the official title of my address is now:

'A detailed examination of the complex interactions between socio-demographic expectation articulations, imperatives under the contemporary political paradigm and regulatory regime restrictivisation of incentivised behavioural norms in the Australian banking industry, with a prognosis on anticipated developments in the proximate and intermediate time periods – a view from a central position looking both ways'.

I've been to many number of law conferences over the years and I know for a fact that my new title is an excellent choice for a conference paper.

It is *even better* for a long after-dinner address – given towards the end of the week – when we're full of good food – and probably wine – and wondering if we'll get home in

time to catch the end of version 2 of the Footy Show's Grand Final program.

So I will brook no criticism of my new title.

But there is a serious point to why I raise my outraged journalist's response to *Banking for Fun and Profit*.

I think it is significant that the title of a fairly dull – sorry – after dinner address at a fairly 'specialised' conference can attract the attention of a mainstream newspaper, weeks before the address is given.

No doubt the free publicity for the conference – such as it was – was welcomed by the organisers.

But it would be a shame if we missed the critical point of this very minor incident, because I think it illustrates so well what I see as one of the most important challenges facing the Australian banking industry today – its reputation.

Why was my journalist outraged, and why would anyone really care what I was saying tonight, apart from you, my attentive and highly-captive audience?

If I had been talking about Accountancy for Fun and Profit, or Urban Sanitation, or Beekeeping, or just about anything else, I doubt it would have been noticed.

But because of the state of the banking industry's reputation and its standing with the general community, it drew those few sharp lines of criticism. That, and the fact that it was probably a slow news day.

This is but one small illustration of how the industry's reputation affects us every day.

Concern for reputation, of course, is nothing new.

One of the most famous quotes about reputation is given to Othello's lieutenant, Cassio, when he bewails his loss of reputation

I have lost the immortal part of myself,

he says

and what remains is bestial...

...we'll come to Iago's response in a moment.

So, have banks lost their immortal part and become bestial?

Well, I can easily stand here and argue not.

I can tell you that independent analysis shows that customer satisfaction with banks in Australia has never been higher than at present – it is at record highs.

Three in every four customers say they are satisfied with their current bank.

I can also stand here and tell you that, as a percentage of total customers, customer complaints are falling and that, compared to some other well-known service industries, our level of complaints is only about one fifth of theirs.

And all this would be true. And it is important.

But I can also tell you this.

When asked about banks in general, not just about their own experiences, people are generally negative. We know this, because the industry and individual banks keep an eye on such things.

But you don't need sophisticated polling, focus groups or worms to test this for yourself.

Any of us can see how banks are generally perceived, just through a casual read of the newspaper, or by listening to talk-back radio.

And not only is the reputation of banks in general low, but we also know that their reputation is fragile.

So, for example, we know that in the late 1990s, when banks closed branches and sought to reduce their staff numbers, reputation suffered.

We know that through much of the last decade, our reputation slowly recovered, only to collapse virtually overnight when banks, for good reason, began moving home loan interest rates independently of the Reserve Bank.

But it is not all doom and gloom.

As I have already mentioned, customer satisfaction levels are at record highs and complaints are falling.

We also know that at the height of the global financial crisis, when banks all round the world were being bailed out to prevent them from collapsing, yet Australia's banks stood tall and strong, there was almost – almost – a sense of pride in our Aussie banks.

Admittedly, that was for a mere fleeting moment and as soon as the immediate threat passed, concern, even anger, with our banks returned.

So, banks have a bit of a reputational problem.

But so what? Does it really matter?

As my journalist pointed out, Australian banks are making healthy profits. Does it matter that we are not loved?

Perhaps not.

But it depends on how unloved we are.

Now, we would be kidding ourselves if we truly thought banks in general will one day be the subject of adoration.

Banks are big institutions, that touch the lives of nearly all Australians in so many ways, and we Australians always show a healthy scepticism about such institutions, whether they are businesses or governments.

So the fact that we are not loved is not so much the issue, as what happens when we are so unloved that there is strong community pressure for something to be done about the banks.

And this situation can arise very easily. The reason is that strong community pressure sets up a series of positive feedback loops – positive in the sense that they are mutually reinforcing, but very negative in terms of their impact on the subject, in this case the banks.

Negative community sentiment is picked up by the media and therefore the media, no doubt correctly, believes negative coverage of the banks will be of interest to its readers and listeners. They in turn keep hearing all these negative stories about banks, which reinforce their own attitudes. No matter how good their own experiences with their own bank, their view of banks in general is negative and they see plenty of reasons why it should stay so.

Then we have politicians. Those in Government see the community's attitude and realise they need to express empathy and to be seen to act on the community's concerns.

The Loyal Opposition sees a chance to show that they empathise even more than the heartless Government and would do so much more about it...if only they were given the chance, and by the way, did we mention the Government is generally a disgrace anyway.

So politicians send back into the community negative views about the industry, further reinforcing the reputational problem.

Now again, you may ask whether this matters. After all, today's bad news is famously tomorrow's fish and chip wrapper. In fact, in this world of constant news, it may not even last that long.

And consider Iago's response to Cassio

Reputation is an idle and most false imposition:

oft got without merit, and lost without deserving

So Iago would suggest that reputation is neither here nor there. Although, given it is Iago we are dealing with here, we need to be a little careful. And I am not for a minute suggesting that the banking industry's reputation, whether good, bad, or indifferent, was 'got without merit' or 'lost without deserving'. Mind you, I think Iago would probably tell us to take the profit and forget the rest, but he would be wrong.

So why does reputation matter. Simply because an industry's reputation can have very serious implications for how it operates.

As Shakespeare reminds us, concern for reputation is no new thing. And awareness of the implications of reputation for corporations and industries is nothing new either.

We know therefore, that for individual companies, a poor reputation can result in lower staff morale and less motivation. I'm not likely to go those extra few yards for an employer that is on the nose.

Similarly, poor reputation leads to greater difficulty attracting and retaining employees, a growing issue in times of low unemployment and skills shortages.

There is long-standing evidence, for example, that high quality graduates will frequently take into account a company's general reputation in deciding where to pursue their careers.

Research a couple of years ago by the UK Chartered Institute of Personnel and Development showed that 72% of graduates rated a company's reputation as an important consideration in looking for their first job.

Critically, a poor reputation also affects whether people want to be, or remain, your customer. I would suggest that, regardless of their own personal experience with a company, many people are wary of being associated with a corporate name or brand that is routinely criticised publicly.

One of the most stunning examples of how a collapse in reputation drives an adverse reaction from your customers is the near collapse of a cut price jewellery chain in the UK in the 1990s. The founder and CEO of the company, at a function not unlike this, said, and I quote:

We sell a pair of earrings for under £1 - which is cheaper than a prawn sandwich from Marks & Spencer but, I have to say, the earrings probably won't last as long. We also do cut-glass sherry decanters complete with six glasses on a silver-plated tray that your butler can serve you drinks on, all for £4.95. People say how can you sell this for such a low price? I say because it is total crap

For some reason, no one wanted to shop there anymore.

Finally, companies or industries with poor reputations are more vulnerable to attack from non-traditional competitors.

New entrants can differentiate themselves from the perceptions of the existing players and can argue, for example, that customers should go to them for a loan, simply because they are not a bank.

We obviously saw that in the rise of the non-bank mortgage lenders before the GFC – and they are running the same strategy now as they re-emerge.

So these are some of the consequences of reputation for individual companies.

From a whole of industry perspective, the poorer the reputation, the less influence the industry has over its political and regulatory environment. You could even go so far as to say, the less influence it has over its own destiny.

Industries with lower public standings are more likely to attract, and less able to resist, political and regulatory intervention, simply because no one really cares if they are adversely affected – the attitude will be that they probably deserve it.

Equally, those industries will have less influence in seeking their own regulatory reforms – why would a Government want to be seen helping out someone that no one likes.

This is compounded; of course, by the fact that the poorer an industry's reputation, the less influence the community wants that industry to have, so it almost becomes a self-fulfilling prophecy.

And recall those feedback loops I mentioned earlier. Despite Iago's pronouncement that reputation is illusory and unimportant, a poor reputation begets a poor reputation.

If overall you are viewed negatively, the good that you do is too easily dismissed and the ill that you do is amplified.

The irony of Iago's statement, of course, is that he actually uses his good standing with Othello to carry out his evil designs.

Australia's banks of course are not alone in facing this issue. In fact, it is slightly embarrassing to talk to my counterparts from the Atlantic hemisphere about the reputational issues we face here. In Europe and the US, reputation is a critical driver behind the wave of regulation and taxes being debated or imposed on banks.

I think there can be no doubt that, in part, the motive of governments in those countries to hit their banks hard was driven by anger with the role of banks in triggering the financial crisis, and equally, by a perception that some bankers at least appeared not to have changed their behaviour post-GFC.

But while our issues are perhaps on a smaller scale, they are nonetheless real.

Just look briefly at the policy announcements of the three main parties before the election.

Labor announced reform proposals that could lead to very detailed controls over how banks and others market credit cards, how interest is to be applied to credit card debt and when fees can be charged for credit card services.

The Coalition announced it would regulate to override freedom of contract, extending consumer type protections to small business operators.

The Greens simply want us to provide free bank accounts to everyone.

These proposals may or may not have sound policy reasons behind them. But I present them, with deliberate bluntness, not to quibble about their merits or otherwise, but as illustrations of the level of regulation the industry currently faces – regulation that goes directly to our day-to-day operations and that prescribes in detail how we can interact with our customers.

Nor are these policies isolated announcements. Already the industry is managing the introduction of new consumer credit laws, unfair contract laws, and from 1 January next year, responsible lending requirements, all of which control how we can sell our products and services.

I would argue that we face this growing trend towards micro management of the industry's activities by government because of our reputational issues.

So, that is why reputation matters – sorry Iago.

Now, individual banks are very conscious of all this and I am telling many of you things that you already know.

Individually, banks have done much to build trust with their own staff, their customers and with external groups.

Australia's banks have a vast array of community-based activities, from obvious things like community sponsorship to less obvious programs, such as their work in indigenous communities, in schools, promoting financial literacy, giving staff paid leave to allow them to volunteer on community projects and delivering major reductions in their environmental footprint.

Perhaps more importantly, banks overwhelmingly do the right thing by their customers. This is why customer satisfaction is so high and complaints are falling.

To give one example, at an industry level: During the recent economic slowdown, banks voluntarily agreed a set of principles to assist those facing financial hardship.

This is one factor in why we have not seen a significant increase in, for example, people losing their homes when they lost their jobs or had their hours cut back.

Another example:

Over a number of years now, banks have introduced free or low cost accounts for low-income earners, and have cut significantly or removed altogether unpopular fees.

Interestingly, and very importantly, this is also an area of competitive differentiation between the banks, including between the major banks.

I represent an industry, not any particular bank, so I am not going to discuss particular examples, but I think there is plenty of evidence out there that banks are competing on reputation, both in terms of how they position themselves through their marketing and through their own leadership on areas of community concern.

For all that banks are doing that is for the good, I won't pretend for a moment that there are not real stories of financial stress and hardship, or of banks acting in ways that rightly draw criticism.

Nor can we assume that this won't, at some level, continue to be the case.

It is not an excuse, but I would note that as an industry, we deal with over 7 billion transactions each year, on behalf of 15 million customers. This means that no matter how good we are, inevitably, some things will go wrong. This is not to dismiss those incidents, which can have very real impacts on people's lives, but to provide some context. Given that there will always be negative stories available, we need to redouble our efforts to address our reputation overall.

But for all that banks are already doing, much of this effort goes unnoticed or unacknowledged.

Banks are understandably reluctant to promote themselves in these areas, and few others feel inclined to speak out on behalf of banks – another price paid for a poor reputation overall – no one particularly wants to be seen as a champion of banks as good guys.

And despite all of this effort – doing the right thing by customers – working with the community – as we should – our reputation still remains weak.

So what can be done?

Well, I am very mindful of the line from Henry Ford, that you can't build a reputation on what you say you are going to do, or to put it more succinctly, talk is cheap.

Instead, I think it is useful to reflect on the experience of others when faced with similar circumstances.

Not surprisingly, we are not the first to face these challenges and I would like to digress briefly into another sector, mining, before I finish up.

Now, I chose the mining industry, not because I want to say anything exciting or controversial about the Mineral Resource Rent Tax, but for the simple reason that I started life as a humble geologist and know something of the reputational challenges that industry once faced.

Some twenty years ago, the minerals industry in Australia was deeply concerned. It was finding it harder and harder to access land to explore for minerals resources, and without exploration, there can be no resource development, and without resource development, there can be no money made from mining.

The reason it faced this problem was simple – the industry's reputation, especially on environmental and social issues, both here and abroad, was such that no one wanted the

mining industry anywhere near them, and governments under political pressure, were reluctant to allow exploration and hence development, despite the obvious economic benefits.

As the industry saw it, it was slowly being locked out of Australia.

Leap forward to the last few years, and nearly everyone is applauding the mining and resources boom.

So how did the view of mining in Australia change so much?

It would take too long to explain in detail, and you would miss much more than just the end of the Footy Show, so let me skim over some key points.

The industry's first response was based on an assumption that people didn't want mining because they didn't understand how important it was, to them individually, and to the country.

So the industry decided it needed to tell people, in an ever louder voice, how important its role was and the consequences if Australia turned its back on its mineral wealth.

That didn't work.

It is an interesting point for us all to remember that, when people don't like what you do, and you turn around and tell them you are doing it for them, you only succeed in making them even more resentful of you.

The mining industry's next response was to point out the many ways in which they believed they were being environmentally and socially responsible. So they produced some fine publications on their environment and community programs.

That didn't really work either.

A conservationist friend of mine at the time summed it up rather neatly by paraphrasing Mandy Rice-Davies – one for the older members of the audience – by saying: they would say that, wouldn't they.

So mining companies started letting independent auditors in to verify or dispute their claims of environmental and social responsibility. Slowly, the credibility of the industry around its performance grew.

But the final step was vital, and perhaps the hardest.

The industry invited its critics inside the companies, and worked with those critics, or former critics, to actually fix the problems for which the industry was criticised.

This was no easy step and having hard-hatted miners sit around the table with dreadlocked environmentalists takes some serious commitment on both sides.

But the effect was that many critics found it more productive to work with the industry to actually negotiate solutions to problems rather than to sit outside the industry and attack it from the sidelines.

And as criticism fell, the level of public debate, and public concern, fell away as well.

I must emphasize though, that the mining industry's approach required it to make genuine commitments, and to show genuine progress, in lifting its actual performance. This was not an exercise in trying to co-opt your critics into an endless talk fest.

Now we need to be careful drawing comparisons across industries, as there will always be important differences, but equally, I think there are lessons that our industry could perhaps reflect upon as it looks at its own reputational challenges.

So, in conclusion, I would like to go back briefly to the original title for my address tonight – banking for fun and profit.

The reality is, much of the fun is taken out of an industry when its reputation is low, and unless this is addressed, it increasingly affects their profits as well.

In other words, the danger for banking is that there will be a lot less fun and a lot less profit if we do not manage the reputation issue well.

Thank you.

ENDS.