

Event: Trans Tasman Business Circle Lunch
Speaker: Suncorp Bank CEO, John Nesbitt
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Title: Utilising strategic leadership and innovation to maximise opportunities in volatile markets

Thank you to everyone for taking the time to come along today.

In line with Trans Tasman's themes for 2015, I thought I'd talk today about leadership and innovation.

Before I launch into that, a recap on the Suncorp Group, our Bank and how far we've come since I last addressed the Trans Tasman Business Circle. The Group is in an amazingly strong position. The share price has doubled in five years and the balance sheet is strong. Suncorp Bank is claiming its rightful position as the genuine alternative to the old banks. With the non-core bank well behind us, Suncorp Bank is growing. We are Australia's fifth largest and truly genuine bank, connected to our customers and our communities. Our bank is set apart from its traditional peers. We have a strong capital position; enviable balance sheet; the right team in place; and strategic projects taking shape in the form of our new banking platform, advanced accreditation; and cross-Group Business Intelligence using data for innovation.

With innovation in mind, today I want to particularly focus on three areas:

- Strategic leadership and innovation in response to new threats and opportunities – disruption;
- Leadership and innovation in dealing with old problems – such as natural hazard and drought that plague Australian communities, particularly here in Queensland; and
- Leadership in creating a financial system that serves the country well for decades to come.

It's easy to understand why the latter matters to us at Suncorp. But the first two are equally dear to us. And I'll explain why.

When thinking about strategic leadership in times of change, the words of banker Nathan Rothschild come to mind.

"The more unpredictable the environment, the greater the opportunity - if you have the leadership skills to capitalize on it."

Strategic Leadership and Innovation to tackle emerging threats and opportunities

Unpredictable is exactly the right word to describe the way technology and consumer behaviour are changing business and industry. It's certainly the case in banking.

The impacts are evident in the US and European banking markets. This is where trust and confidence are in short supply and innovators, startups and clever fintechs are capturing the opportunity. Traditional players have failed their customers. In the void, a new world of financial services is emerging with customers rightly in the driving seat.

This is providing powerful lessons here in Australia.....stand still at your peril.

Our banks remain in strong and relatively reputable positions as demonstrated by the recent Corporate Reputation Index. But disruption looms. Self-disruption is the best form of response. And it's the appropriate response when so many great technology options are being presented and customers are demanding better, faster, cheaper.

Australian consumers and businesses increasingly demand and have access to innovative financial products and technology, reflecting behavioural change and disruption.

Banks in Australia have generally performed well in meeting the financial needs of Australians and facilitating productivity and economic growth.....unlike the US where a payment from one bank to another can take more than a week, if it's possible at all. And cheques remain a favoured form of payment.

US banks are proving slow to adopt new technology which is on their doorstep. Silicon Valley near San Francisco and Silicon Beach which is evolving near LA are incubators for some incredible developments. On a recent trip to the US, I was fortunate to visit the Tesla car factory. These electric vehicles are on the streets and they're like iPads with wheels. This is revolutionary technology that has the potential to render the traditional motor vehicle obsolete. This sort of disruption is occurring in many industries. In financial services, we're seeing the development of customer user interfaces which give people the ability to move from branch to digital to webchat seamlessly – all online.

There are cutting edge robotic advisory services. Bank and insurer USAA is using one. It helps US military staff with their banking and insurance. But it also provides much more in terms of everyday support for returning soldiers and those transitioning into civilian life.

The difference is customer experience. Customers want personalised, relevant and real time. That's the reason startups like Uber, Roadie and Air BnB have taken off; a simple solution meeting a customer need and filling a gap or solving a problem.

So what's the response?

For companies with scale like ours, there's the ability to play at a whole new level in this new world. BUT scale brings complexity. To cut through the complexity and realise the twin opportunities of scale and agile innovation, there needs to be a sharp focus on problem solving. This was validated in what I saw on the west coast.

The key to leadership in this climate is agility, flexibility and resilience. Flexible workforces, non-traditional work teams, speed of development, testing, failure and re-setting. These are becoming the norm in modern, successful workplaces and competitive, sustainable businesses. At Suncorp, we use agile methodology and we have a highly flexible workforce and environment. The Hubs we have near Melbourne and here in Brisbane are touchdown points for hundreds of bank and insurance team members. They are Work@Home employees who meet to collaborate at the hubs. We've found this to be highly successful for our people and our business in terms of productivity and lifestyle. It reflects in our staff survey engagement and enablement scores which are above global high performing norms.

Our hubs are an indication of the way the work environment is changing. They signal how banking is changing.

The notion of traditional competitors is dying. The innovators and the traditional players I saw in the US are collaborating to solve problems. 'Frenemies' are getting together in shared innovation labs. Open innovation labs and open source environments are encouraging collaboration and problem solving both physically in the workplace and online.

Here in Australia Suncorp is part of the Stone and Chalk innovation lab in Sydney which was launched a few months ago. We're also working with incubators and startup labs including River City Labs here in Brisbane, and Fusion Labs and Fishburners in Sydney. This is all about giving new technology and ideas - wherever they may come from - the opportunity to reach the customer. It's also about finding new ways to solve new problems. We're in a generational-low interest rate environment with low growth and choppy consumer and business confidence. We must think and act differently. Businesses in this environment must be nimble enough to trial and incubate lots of new ideas - many of those will fail fast, providing lessons for the development of solutions.

Let me share a couple of ways that we're fast incubating new ideas. We hold Innovation Days where in 24 hours teams at Suncorp form organically. They take a problem that impacts customers and they come up with ideas. Last year we had more than 50 ideas generated in 24 hours. Collaborating with smart people internally and externally we put ideas into production and into the hands of customers.

Here are just a couple of them:

- **The Bill Splitter app** – Suncorp Bank is the first Australian bank to offer bill splitting as part of its Mobile Banking App. The Billsplitting feature allows customers to send virtual IOUs to contacts within their phone, automatically record incoming payments, send reminder texts to prompt outstanding payees and deposit money directly into a customer's account.
- **AAMI safe driver app** – uses GPS technology to track driving journeys and assess driving behaviours. Provides feedback at the end of each journey.
- **Trov** – Suncorp has partnered with US Technology company Trov to deliver the Trov App to the Australian market. The app tracks the users' belongings, records the value and assesses the home and contents insurance requirements accordingly.
- **Severe Weather Alert** – this is an alert function that helps customers be better prepared for severe weather events.

Responding to and mitigating natural disasters

Now let me turn for a few minutes to the way we've approached an old problem – one that impacts our business and all of us in this room. In the past few months alone, we've seen a spate of dramatic weather events and natural disasters here in Queensland and in New South Wales. These are a fact of life in Queensland, and much of Australia. They are a fact of life in banking and insurance businesses.

We have to accept they are part of our natural environment but we don't have to accept the repeated financial and human impacts of these devastating events. Natural disasters are a significant economic threat costing Australia upwards of \$6 billion a year.

In addition to the financial cost, we've seen the devastating impacts these events can have on communities. The human cost and psychological impacts are huge.

In the past decade, towns in Central Queensland have flooded three times in as many years. The cost of rebuilding and the emotional toll is immense.

We've seen communities repeatedly impacted by flood, cyclone, and bushfire.

We need to reset the balance between the focus on recovery and event response and investing in prevention.

Recently, we've seen towns like Roma in Queensland implement flood levees which protect the community from repeated flooding. And as an insurer we've been able to respond with premium reductions of up to 90%, such is the risk reduction of the flood mitigation. We took a stand on this issue. We weren't always popular, but we took a leadership position and this reaped results for communities and economies.

When governments implement mitigation, we are true to our word, responding with premium reductions to reflect the lowered risk. Flood levees are just the start.

We need to be thinking about building codes and smarter urban planning to reduce the risks faced by new developments. To support this, we've partnered with James Cook University to conduct leading edge research into building construction methods, with a specific focus on homes in cyclone areas.

Flood levees are a solution to mitigating water but what about cyclones? You may have seen our recent announcement about the measures we're taking in North Queensland where mitigation against cyclone is a huge challenge. We know insurance premiums are high in cyclone-prone areas. Those premiums reflect the risk. We need to mitigate that risk. What we are doing is looking at affordable financing solutions so those in the cyclone region of NQ can retrofit their homes for cyclone resilience. And we're reducing premiums by up to 20% where homes are retrofitted to mitigate cyclone risk.

We'll be relentless in our arguments for greater investment in natural disaster mitigation. This is a strategic leadership position that resonates with our communities.

Breaking the drought

We're also dealing with another natural disaster in our own backyard. And it's one that we have been dealing with for as long as the agricultural sector has been active in Queensland.....Drought.

I applaud the Federal Government's Budget announcement on Tuesday around tax breaks for farmers to allow for water storage and fencing for drought preparedness. This is a step in the right direction.

Agriculture is a core sector for our State and we need to do more. We haven't been able to adopt effective mitigation strategies to reduce the economic and emotional cost of repeated cycles of drought.

Traditional natural disasters – cyclones, bushfires, floods – are unexpected, impact upon income and have devastating effects on communities. And for our farmers and regional communities, drought is all those things too. I've seen the impacts up close, having grown up in the country myself.

Drought has a huge impact on farming families and a massive knock-on effect in rural towns and regions. There's the psychological stress it causes and a huge opportunity cost in lost production – at a time when the world needs more primary producers. For Queensland, in a post-mining boom era, agriculture is an industry we should be investing in and encouraging.

But it will only work if we break the cycle of drought and debt.

We want to reframe the traditional drought debate toward solutions. It's time that all levels of government and private enterprise put their weight behind drought mitigation. We need to move from a discussion on traditional drought funding packages to a genuine debate on long-term drought mitigation strategies.

Countries suffering drought all over the world have managed to find irrigation solutions. We're long overdue for considered and rationale conversation about truly breaking the drought.

It won't be an easy, quick fix. But strategic leadership is often tough and it's rarely served well by short termism.

Suncorp Bank has been supporting customers in regional areas since 1902. We support our farmers today through initiatives like NextGen for young ag producers and we provide emotional resilience support through our roadshows and courses. We want to take a strategic leadership position on drought to ensure we preserve our important agricultural sector for the next hundred years.

Leadership in the development of a strong and sustainable financial system

And finally, on to matters of long-term sustainability in our financial system....

Right now, we are facing a once-in-a-generation opportunity to contribute to the future of the Australian financial system through the David Murray Financial System Inquiry.

We've made three submissions to the Inquiry committee and now a final submission to Federal Treasury. The ball is now in the Federal Government's court. We expect to see the Treasurer make an announcement in the next few months on David Murray's recommendations.

From my perspective, the single most important issue that can be addressed through the Financial System Inquiry is competitive neutrality in our banking industry. And thankfully, the Inquiry felt the same as it's the subject of the first few pages and the first few recommendations.

Our country needs a more level playing field in banking on a few fronts: regulatory, capital and funding. Regional banks are holding up to 10 times as much capital as the major banks on like-for-like mortgages. This makes no sense. We need like-for-like capital treatment of like-for-like risk. And secondly, the credit rating and thus funding advantage afforded the major banks via Too Big To Fail needs to be addressed.

We aren't seeking special treatment; simply consistent treatment of banks to ensure a sustainable and competitive banking market well into the future for consumers.

We've been vocal on this issue. We've taken a stand when we could have just stayed silent and hoped for the best. That would have been the low-risk approach. But it isn't good leadership. We worked with the regional banks to have our voice heard for the benefit of consumers.

To conclude

I believe that the best corporate strategies around leadership and innovation are those that take and build on existing corporate strengths and capabilities. We have a reputation for agility. We have the strength of a top 20 Australian company and the genuine connection with our customers and communities of a regional bank. We also see the importance of innovation when solving new or old problems but importantly, understand the criticality of execution. It's no good having a great idea if you don't have the guts, determination, discipline and the right people executing on it.

We've stuck to our guns and maintained a leadership position on things like mitigation. It hasn't always been popular but in the long run it has reaped benefits for community safety and prevented further economic impacts. We've had great success on flood mitigation; we're making headway on cyclone mitigation; and you'll be hearing more from us on breaking the drought.

2015/16 will be a year in which companies have a choice. They can demonstrate leadership - even when it's hard - or they will suffer the consequences. We aim to ensure a position of leadership delivers:

- A level playing field for the banking industry for the benefit of consumers
- A continued shift of funding from disaster recovery to mitigation, improving community safety and resilience, putting downward pressure on insurance premiums
- And genuine debate on long-term drought mitigation strategies in Queensland

I'll finish with an observation that's inspired by Lee Kuan Yew. He is the much admired and very long-term PM of Singapore who passed away recently. Mr Lee pushed back on short-termism in favour of pragmatic long-term measures. His success is evident in Singapore's transformation from an under-developed colonial outpost to a peaceful international powerhouse that belies its size.

Mr Lee said: "I always try to be correct, not politically correct." He didn't take the easy or populist way and he always kept an eye on the long term. There are lessons in this for all of us as leaders in business and in government, particularly in this time of rapid change.