

Sustainable Communities and Banking

Trans Tasman Business Circle – 17 November 2008 – **Speech Notes**

Rob Hunt, Group Managing Director, Bendigo and Adelaide Bank

Thank you for this opportunity to discuss the subject of Sustainable Communities and Banking. Some time ago I cast my thoughts around how our Bank might address the issue of Sustainable Communities, at the time not knowing we were about to enter an environment which continues to threaten and challenge confidence in our communities. Back in 1994 we undertook a detailed review of our strategy, looking back on our history as a building society (for well over 130 years). Our organisation had grown out of community, had worked for the community, had prospered, and had developed an amazing level of customer support in the communities where we operated.

But what I would like to discuss today really centres around ***Thought Leadership** – **challenging the paradigms and business orthodoxy that sometimes sees us leap to wrong conclusions or miss out on opportunities*. In discussing Thought Leadership I could talk about traditional business strategies, but we are about to embark on some real change in a new environment – not just the current environment – the “environment of the future”, and this will challenge many of the traditional strategies at work today.

So I would like to give you some insight into the strategy we have employed for well over a decade now – a strategy that is working for our organisation, for our customers, and for the communities we serve. In fact much of the strategic work we undertook back in 1994 has since been revealed in implementation.

What we were contemplating in 1994 was a new banking strategy given, after many (many) years as a building society we were contemplating conversion to a bank. We were convinced about the move because our customers and the communities we served were telling us they wanted us to become a banker to the broader community (not just to consumers within that community). We had grown out of housing loans – in the very early days providing housing loans to actually start building a village in Bendigo. It was an amazing history to reflect upon and consider if it had relevance for the future.

As a small banking organisation, we were convinced we needed a point of difference. Firstly we needed to reassure our customers that they were going on the journey with us (from building society to bank). And secondly we needed to advise many others, who hadn't experienced our style of relationship-based business, that we could in fact present an alternative style of banking. And one element of our strategy was to think about how we might engage at the same level we had managed to achieve in Bendigo, its environs and some parts of metropolitan Melbourne. How we could develop a connection with the customer that would actually enable people to recognise the full strength of the strategy we were about to present. We understood we had some large competitors (with much greater might than we had to deliver our message), so we had to develop a plan that could be implemented over time and which would progressively confirm what we were saying about the type of bank we intended to be and were committed to become.

Our evaluation revealed the great strengths of our past, but also revealed that great opportunities would be presented – because when we went out to the market, we found they were yearning for some of the things they had grown used to in the past but were missing at the time. They too were looking for a relationship. They too were looking for someone interested in their prospects – and the prospects of their community and district. While it would be pleasing to take you on a little journey, to tell you a few stories about some of the more visible things that have occurred over the past decade or so in pursuit of our strategy, I will concentrate more on **Community Bank®** – because it took a bit of courage and a great deal of effort to pursue a very different direction from other banks – to present a very different model to consumers – something that would serve to confirm what we saw to be the priorities in order to secure sustainable, long term, valuable business.

We looked back at why banks had been formed in the first place – in our view, to help create prosperous villages and prosperous economies. We believe banks should focus on feeding into prosperity (not off it), and that a bank focused on building the strengths of its customers and marketplaces will be afforded a greater proportion of the business available in those markets. What was revealed to us during our evaluation is actually pretty pertinent in today's market. Many of the things people are yearning for today (certainty, grounding, belonging) are the very things that underpin our strategy of a “personal relationship” based banking framework connected to our customers.

I think we often forget (and sometimes it takes times like these to remind us) about the importance and roles of our industries and businesses. What is important is not the *function* we perform, it's the *outcome* we create from those activities. We all know that a prosperous village is a great place to run any business, yet often we focus so much on our own businesses that we forget about some of the things we might be able to do to help make the marketplace in which we operate more prosperous. This is very important for a bank. We could see the role of a bank as much more than it had become – more than just discussions about product, price or access. We could see the role of a bank as being welded to the aspirations of the marketplaces in which we operated – which, pretty much, reflected our origins.

How important are banks today? I think we already know, because today there are countries around the world trying to rebuild that sense of confidence in their banking systems. Banks are still the most efficient way to deliver capital from various capital pools – such as bank balance sheets, superannuation, collective investment structures and global markets – and putting that capital to work in our domestic economy (to great effect). A highly effective banking system is a key element to ensure an effective economy. In this country banks fund most of our small businesses which, I think everyone in this room would know, are the engine room of our own economy.

So we understood the role of a bank, we understood the value of a bank, and we recognised that some parts of the traditional banking model needed to be reshaped. The next issue for us was to show others how our history and our business reflected our understanding of the role and value of a bank, and the role we could play in local economies.

Some markets and communities were approaching us about the loss of banking services – or at least looking for some protection from the way the system was working for them. However, all of them were looking for the sort of certainty that could only be achieved by doing it very differently. Because if a bank branch was being closed for solid economic reasons then, to be successful, the basis of operation needed to change. We couldn't just reinvent the same old branch model. While we looked at various options, including co-operative banks in Europe and community banks in the United States, we realised that a brand new business model was required for our communities.

A brief evaluation of our communities convinced us that the basic ingredients were there to secure an effective solution. While many were saying there was a shortage of leadership, we didn't find that. In fact, we trusted our communities to become the partner we required for our new collaborative model. It wasn't a traditional supply-side model, rather it was a combination of the supply-side and demand-side. What we created was a very different business model that would serve the aspirations of both parties, and sustainably.

We needed to improve local capital management and to understand the flow of capital in each market. We needed people to be more engaged, more involved and more able to understand what was actually impacting their marketplace – in order for them to be able to take action to recover the situation. That local involvement is the key element in the part of our new strategy known as Community Bank® or Community Enterprise.

We knew our role had to be more than simply delivering quality products and competitive pricing. We needed to be able to enhance the economy and, in turn, encourage people in each local economy to address the issues confronting them. It is not possible for someone else (from outside the community) to wave a wand and solve all of these local problems, but it is possible for each community to significantly advance their own prospects by addressing issues locally – in this case in partnership with a corporate (Bendigo).

At that point (and in the years leading up to it) I had spent a good deal of time being very concerned as a business leader about discussions that defined regional and rural decline as a natural phenomenon. Much of this so-called “natural phenomenon” was actually man-made. I was pretty passionate about finding out what had been the ingredients of a successful community in the past. Were any of those elements still available today and, if so, how would we organise ourselves to utilise them?

So I figured out ten major elements of sustainability for communities and, during our evaluation, it became obvious that a bank could clearly influence a large number of these key elements of sustainability –

1. Mobilise, involve and engage community leadership as a whole
2. Use quality information in decision-making and assessment
3. Better utilise the community's entire capital base (human, intellectual, productive, financial)
4. Reduce the capital drain from our districts (communities)
5. Produce world-quality product and global-equivalent efficiency
6. Create environmentally sustainable enterprise and activity
7. Use technology to open up new markets
8. Develop capacity to utilise combined buying base
9. Create an environment for continual learning and upskilling
10. Always ensure young people are embraced into the activities.

But a new business model would be required to enable that to happen. We had an idea about what might be a different way to engage with local people and run a distribution business in these communities. But then came the hard task of actually convincing lots of people about the change that needed to take place for the journey to be pursued. I recall the significant internal work necessary to position our organisation for these sorts of challenges as, effectively, we were tipping the traditional thinking and business model upside down. And of course there were challenges at the community level, where they hadn't actually done anything like this before. I am immensely proud of the journey these communities have taken with us – particularly the early ones – because this concept hadn't been undertaken anywhere else in the world.

Confronted by these issues of managing internal and external challenges, many said *This won't work. It can't work. Community is not up to it. You'll not be able to change the business model. You'll be challenged.* Of course we were challenged! But, as it turned out, we did commence the journey. Building the success, building our future sustainability, is inextricably linked to the success of our customers and the communities we serve. If we are not willing to roll up our sleeves and be involved, then there is a great chance we won't be afforded the community's business in the long term. This is the preparatory work which enables us to build our credibility and establish a connection so our customer base can understand the role we play and the value we add.

We want to be relevant and connected and, if we are both of these, then we will have more chance of being valued. Today customers can shop anywhere in the world for many of the services we provide. Therefore, if we are not focused on being relevant and connected, and if we don't know what role our products play in the health and prosperity of our individual customers, then how will we be able to defend our position? How would we prosper without this?

We knew we needed to challenge ourselves. But having one of the most outstanding and innovative teams in banking, being small and adaptable, being able to respond to change, looking back on our history, knowing we grew out of community, knowing why we existed and how this was relevant for our future – all of this – was very valuable and revealing. It gave us the insight to pursue the opportunity we have today.

Some of our Community Engagement activities you will have heard of centre on Community Bank®. But we also have Community Telco, Community Solutions, our Lead On youth and community engagement program, Community Sector Banking (a banking structure developed specifically to assist the not-for-profit sector), Community Enterprise Foundation, etc. These are just examples of our being able to be challenged by the needs of community – and of our obvious commercial capability to consider whether a solution might be developed by working in conjunction with our customer base. We think more broadly than just banking product. We think about the balance sheets that might be constructed in the future which will help sustain the community's level of services and business at the local level – so important to help effective communities to operate.

In essence, Community Bank® is a blended business model. It combines the neo-classical shareholder model with the co-operative or mutual models of the past when communities set about building services for themselves. The reason you may think well of it – or have heard others speak well of it – is because of the model's broader objective to serve all stakeholders in each particular marketplace.

Today we have more than 220 Community Bank® sites, with more than 650,000 accounts totalling more than \$13 million in business so far. And there are 1500 Community Bank® directors who get out of bed each morning and actively advocate for and on behalf of their communities. These are our partners, and they are a powerful force.

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A stronger connection? I don't know how anyone could create a stronger connection than we have with our customers and communities. We have earned our place in their community but, equally, they have invited us in. This is a very valuable thing – for a business to be welcomed into a strategic position in the community and to be able to develop a connection with its customers.

The community benefits which are emerging – and this movement is only 10 years old – are just outstanding. The dividends paid to local shareholders already exceed \$12 million, and the contributions to local communities exceed \$21 million. This contribution will accelerate very quickly as these businesses become mature and start generating sustainable surpluses. And those surpluses will be repatriated locally – repatriated with the brand of “Bendigo” and the community working together to achieve outcomes of importance at the community level. It's not just about the gifted funds to kindergartens, schools, etc – or about the “celebrations” as I call them. It's not just the dividends paid to local shareholders. It's about capital remaining in the local economy and working through the multiplier effect, and the fact that communities can now contemplate undertaking strategic projects.

Last year the Community Bank® movement's share of revenue was \$123 million. An outstanding achievement given its early stage of maturity. It is a substantial business in its own right, and I would also rank the partnerships and relationships we have developed as outstanding. Neither of us take each other for granted. We won't always agree with each other, so it's not an easy task to manage all of these collaborative frameworks – but it is possible, and it does produce a very different and substantially improved outcome for communities.

The community dividends will grow very dramatically as this network matures. We are already seeing strategic initiatives such as purchasing new fire engines, planning for retirement living, childminding facilities, new halls (where community can meet and plan their next major exercises). These scenes are being played out day-by-day. Communities are starting to write their own script. Having risen to the occasion (by bringing back a banking shop) people are now being drawn back to the things they used to do together as a community, things they used to take for granted.

And planning at the local level – to build a community for the future – gets you the best hearing when seeking external assistance. When communities have a well planned, well organised and quite often well funded proposal, they are much more likely to gain matched funding from governments or support from corporates. We believe our model is one of the most outstanding community matched-funding models in Australia, and we are confident this will be confirmed during the coming decade. Our model is a true **Business and Community Partnership** – working with co-operative and community spirit within a commercially sound framework.

And now these communities are banking through their own local shop, they are **helping to build a Community Balance Sheet** out of an everyday activity called “banking”. They are gaining a sustainable revenue source – just from doing their banking. And we are confident they will apply that sustainable revenue source to good purpose. We trust them to tell us what their priorities are – that they will come to us, and work with us, on how to construct a sustainable solution to address their particular challenge(s). “Building a balance sheet” is very much a term we use internally, and we see our role is to build a stronger balance sheet for our customers and for their communities – and we have been welcomed into those discussions.

So, is this Community Enterprise model about “banking”? No, it's about “building sustainable communities”, but it does need to meet the commercial test around the banking (or any of the other elements in which we are involved). The whole process starts by taking an inventory of community needs and aspirations and of current community assets – and then seeing if we can establish a stronger Community Balance Sheet. But there are other aspects of the process which, I think, will become even more valued by communities in the future.

Local capital has been retained. Local competition has increased. New competencies have been built. New levels of confidence are being demonstrated. A new level of commitment has emerged – not only to work on the solutions, but to **think about the next layer of opportunities in which the community can engage and build a stronger marketplace (*Thought Leadership).*

Local champions are identified, engaged, and applied to the betterment of their communities. Co-operative and community spirit has re-emerged – to an extent that even I would not have dreamed possible at such an early stage in the life of Community Bank®. In the early days people kept saying to me – *Community? Community spirit? What are you talking about? That doesn't exist any more.*

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I used to talk about Thinking Globally /Acting Locally – taking the opportunity to think about the global issues and how we might act locally to respond to those challenges, rather than simply being on the receiving end of someone else's strategy. Today communities are collaborating with us to put this opportunity to work. We now have a constituency of communities working (with our help) through the challenges, as they see them.

Collaborative Commerce is a very old concept. Many grey-haired people in the room will know that, over the years, the idea of collaborative commerce has fallen out of favour – but it is now absolutely back in vogue. In fact it's a necessity, if many communities and businesses are to remain relevant into the future.

All of this sends a very different message about “community” and those communities who have undertaken this approach. And the opportunities these communities can now present to other players are becoming more obvious. They are no longer subservient to someone else's (supply-side) strategy. They are now part of a sustainable community (demand-side) strategy for the future.

And it sends a very different message about Bendigo – about our business and our motive to build our business for the next 20 years (not just the next quarter). We are competitive but not focused on winning business on “price”. By being focused on our customers' success, Bendigo is winning business that is likely to stick with us for a long time. I am confident our approach will generate sustainable commercial outcomes but (and probably just as importantly) our approach demonstrates our **different focus and different style of banking** based on solid commercial principles (because that's what gives us licence to play in this game).

So Thinking Global /Acting Local is alive and well in our organisation – and not just in the banking or Community Banking elements. We are now applying that same energy into many other initiatives and, in time, we will welcome other corporate partners to help us establish the building blocks to empower 400 communities with whom we have direct relationships (and 500 communities with whom we have emerging relationships) and achieve the real prospect of adding value way beyond the banking services we provide. Guess what happens to a bank that is helping to implement projects that add economic value to a community? It is afforded a greater level of customer support in that particular marketplace.

In the early days of our Community initiatives, we knew the communities needed to re-establish their connection and ability to create and innovate. We knew they needed to move to the new economy – and indeed we are on that journey today. But if we had gone to them and said - *You come with us. We are bankers, come with us. We're going to take to you to the new economy.* How many of those communities do you think we would have with us today? Or if we had threatened them – said they just had to change – how many would have changed? The fact is we have gone on this journey with them and have had conversations with thousands of community members. Today these same people give us the information we need to ensure that (as we build it) the framework for the new economy will be relevant and connected for them, and will reinforce each local and individual economy.

So you can see that none of these initiatives are around “banking” as such. Banking has simply given us the licence to participate at a community level in the way that (I believe) banks were initially formed. That is, to ensure we have ongoing prosperity and the capital pools and the local demand for the future economy. In my view these models have created a great opportunity for us all.

We all know we are entering a new age. *Forget the current environment for the moment (certainly I would like to forget it for a half an hour or so!). So for the moment let's put aside the confidence challenge we face.*

We are in the age of the consumer. Today's consumer can choose anywhere in the world to buy many of the products we offer. But the connection we have with our customers creates a greater prospect that they will choose to press “Bendigo” on their computer screen, both today and hopefully in 20 years' time. For what it will be about won't be *product, price* and/or *access*. I can buy product anywhere. I can shop around the world. And it won't be about *convenience*, because I will be able to keep some money in London and keep some money in New York (or wherever).

The issue for the customer will be – *What I feel (in my heart) and know (in my mind). What matters to me? Do I trust these people? Are they relevant to me and my aspirations? Does the brand says anything to me? When they do visit, are they here to add value to me, the customer?* What Bendigo is building is “connection” and that will be very valuable to our organisation into the future. That connection can be leveraged and will certainly connect with other value-adds that will emerge as our (and each community's) thought processes develop.

Yes, Thought Leadership is challenging. The current economic climate is challenging but (in this consumer age) I think we were being challenged anyway. When customers can shop anywhere in the world, we have to become more creative if we want them to drop in and shop at our place. We need to be relevant and connected. Our customers and communities need to understand we are here to help them build a prosperous future. If we are part of that equation, then we have a chance that our logo on the internet screen will be more of a beacon than anyone else's.

It will take some courage and it will take some creativity. Occasionally it will take different business models, as we have already demonstrated. For many businesses it will take a great deal more collaboration and a little less control. Greater levels of co-operation can certainly improve the prospects of achieving positive outcomes for all.

We set about building a strategy for our bank that tells a story about what we stand for, and we took that strategy out into a marketplace where we were a tiny player. Perhaps we are still a tiny player, but we are building an ever increasing connection with our customers. Today almost 1.4 million customers have joined our organisation – customers who have made a conscious choice to do so. And, over time, we have a great opportunity to embark on conversations with our customers (and communities) to help build sustainable balance sheets for us all.

All of this really just says that all Australian businesses today are challenged. We all need to look at the business models we have employed in the past to see if they remain relevant – and that is very healthy. The current economic climate challenges the issue of “confidence” but equally it is an opportunity for us to consider whether there are things we could do today to improve our business models and/or the way in which we manage.

Today I have outlined just one part of Bendigo Bank's overall strategy, but everything we do is based on the same premise – that we need to be relevant, connected and valued. Bendigo has taken this approach for a hundred and fifty years now (although previously it was not as codified as it is today). In doing so, we have created a strong and differentiated brand and – in terms of long term sustainability – the best Business and Community Partnership model in Australia today. (My apologies for saying this, but I absolutely believe it.) We have built outstanding connections with our customers, communities, and their aspirations. A good start for any strategy.

Our strategy (and business model) centres around “listening” before we “plan /build /run”. If your strategy is *plan /build /run /advertise and they will come* – that's fine. It's a strategy long used. However, if you “**listen /plan /build /run**”, then you actually need to learn some new skills. And in our listening we've learned new skills which have created new opportunities for us.

Our approach enables us to succeed in **producing a Triple Bottom Line as a natural outcome of our strategy**. It's not something we simply “bolt on” to make sure people know we perform the role of a good corporate citizen. While most Australian businesses do follow the principles of Corporate Social Responsibility, we believe our approach – producing a Triple Bottom Line as a natural outcome of our strategy – achieves a stronger connection with our customers than other business models we have seen. Most importantly, we need to produce a strong and positive outcome for all stakeholders. If we didn't satisfy shareholder requirements in the long term, they wouldn't supply us with the capital we need to pursue our objectives. Equally, if we cannot add value for all other stakeholders, we will not be able to sustainably achieve these outcomes for shareholders.

So I put it to you that traditional banking, particularly because of the current economic climate, is back in vogue. Traditional banks are required if we are to maintain a buoyant economy. Banks need to perform well in their role of collecting capital from the various pools and applying these funds to the most productive activity at a local level, right through to the smallest business and the smallest household. And the better banks can perform this role, the more likely we will retain buoyancy in our economy going forward.

I hope this has given you some insight into how we have viewed the development of our bank and our strategy for advancing our business and creating a different style of banking. We are certainly committed to our strategy. We know it has relevance. We know that when people are looking for a point of difference they don't need to rely on what we might say in our advertising. People can make their assessments on what we have been doing over the past decade – on the deeds we have performed.

Thank you

Rob Hunt – Group Managing Director – Bendigo and Adelaide Bank Limited