



Facing the challenge and constraints
of growth in global markets – The
Australian experience.

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Good afternoon,

It is a pleasure to be here today, if only to disprove the theory that Australian executives generally travel to the United Kingdom in June when the weather, tennis and especially the cricket provide some enjoyable distractions.

As the National is not very well known in this market I would like to spend a few minutes positioning the National for you.

National Australia Bank has had a fifteen year involvement in the British and Irish banking sector, beginning with the acquisition of Clydesdale Bank, Northern Bank and National Irish Bank in 1987.

Our other UK bank, Yorkshire Bank was purchased in 1990.

Because we have operated our UK and Irish banks as separate brands the extent of the National's group businesses is not generally well recognised in the UK.

Before turning to future growth challenges and opportunities I would like to give you some details of our existing operations,

especially since some of the industry forces that have shaped the development of the National have interesting parallels with the UK banking sector.

CLICK [World Map]

As you can see, we have retail banking operations in the UK, Ireland, New Zealand and Australia and our Wholesale Financial Services and Wealth Management divisions have businesses throughout Asia and the United States.

CLICK [UK Map]

Looking at the UK in particular we have followed a strategy of maintaining the individual brands while sharing products and administration across the brands.

It is also worth noting that our banks in the UK are traditional commercial banks with the full suite of capabilities and spread of business, including wealth management and corporate banking.

Our total assets in the UK are approximately £37 billion and for the 12 months to end of September this year we earned £541 million in profit before tax and significant items.

A valuation based on this latest profit and using market-based multiples would place our combined UK banks at number 41 in the FTSE 100.

The National's interest in the United Kingdom and Ireland is not a brief summer sojourn.

We have substantial, high quality and competitive banking businesses – and we are here to stay.

CLICK [Market Cap and Phases]

Looking at the National Group, this slide shows the significant developments that were associated with our growth in market capitalisation over time and also looks at the phases we have been through as a company.

Phase one represented the consolidation of the Australian industry culminating in what is known as the Four Pillars Policy in Australia.

In a small domestic market, the competitive constraints of the Four Pillars policy means that we need to look offshore to sensibly grow our business.

As a result in Phase 2 the focus changed to acquiring assets such as our UK banks and diversifying our income streams.

Phase 3 was typified by the acquisition of businesses that provided new capabilities to meet the challenges of a rapidly changing environment.

Phase 4 has seen us move from a broad global model to a more targeted regional approach designed around integrated financial services.

We define Integrated Financial Services as combining our banking and wealth management capabilities to achieve end to end solutions for all customer segments.

Our international expansion has made the National unique among our Australian peers.

CLICK [World Banks comparison]

As you can see from the chart, our UK banks along with our subsidiary Bank of New Zealand, form a unique international mosaic of banking franchises that we have developed to be a banking entity of similar size to many names that have a higher profile in this market place.

It often surprises people in the UK that the National's market capitalisation compares favourably with banks such as Standard and Chartered, ABN Amro, Societe Generale and Deutsche Bank.

For your interest I have also shown in red the market capitalisation of our major domestic competitors, the Commonwealth Bank, ANZ and Westpac.

You will also notice our growth strategies and offshore focus have delivered a significant lead over the other Australian major banks –

some of which tried to expand offshore but have since retreated to Australia.

We have had some short term set backs but our targeted growth strategy is producing solid results.

CLICK [Cash earnings by region]

This chart shows our cash earnings by geographic region and demonstrates the significance of our operations in each area.

I am currently in the UK briefing our shareholders on our full year profit which is up 62% in what was a pivotal year for the group.

CLICK [Strength and diversity]

As you can see our 2002 profit reflected the strength and diversity of the group. Each of our regional banking businesses had solid cash earnings growth.

In fact, earnings in our Australia and New Zealand businesses were up by almost one third.

Apart from the fall in wealth management profits, which is largely associated with market volatility rather than issues that we can control, all of our businesses have good momentum.

We are determined to maintain that momentum.

CLICK [European Compound Annual Growth]

Taking a more specific look at our businesses in the UK market, this slide shows we have had double digit growth from our operations and our banks have sound asset quality.

The reason for our successful track record in the UK is that we did not simply come into the UK market as a “me too” player.

We have shared best practice among the group entities and this has allowed us to introduce innovative products into the UK such as the Rapid Repay home loan and our suite of Tailored Business Loans.

We are successfully developing our banks here by utilising our areas of distinctive capability.

These distinctive capabilities are focussed around customer relationship management and the associated CRM technology, SME banking and wealth management.

Taking each of these in turn, and looking into the future – a key differentiator of who will win in financial services will be the organisation that is able to harness the data on customer behaviour and use it to best advantage.

Our CRM skill base has won international recognition.

The National won the Relationship Strategy award from the Institute of Financial Services & British Telecom.

In the Banker Awards announced here in September we were awarded Australian Bank of the Year for best use of technology.

CRM is a key enabler for relationship management as it allows you to provide seamless customer service across the many channels

we use to service our customers such as Internet banking, ATM's, call centres and face to face contact.

Our CRM systems improve our ability to anticipate and meet customer needs.

Overnight our CRM technology interrogates our customer data bases and every morning our bankers arrive at work with warm leads for specific customers with specific financial needs.

These leads are either event driven, for example by a customer making a large deposit into an account, or based on predictive models and our existing customer profile.

In Australia our investment in CRM and our segmented approach to both SME and personal banking have allowed us to consistently grow above system growth in key areas such as mortgage and business lending over the past 2 years.

The recent Cruickshank inquiry into banking in the UK has promoted greater competition.

We are excited by this opportunity and we will focus on growing our market share in this area.

In Australia over the past decade we have grown our SME market share and are now the largest provider of financial services to SME's in Australia with nearly 30% market share.

This is well in excess of our natural market share of 18%.

Our success has been driven by three factors:

Firstly, our relationship management focus.

All of our business customers have a dedicated business relationship manager who co-ordinates a range of specialists to manage an SME's complete financial needs.

Secondly, our approach of segmenting our business customers according to their needs and servicing each of these segments from a dedicated platform.

In addition to having specific products and services tailored to the needs of each SME segment we also have dedicated SME banking centres that are separate to our retail banking branches.

Thirdly, our approach of packaging business products and services in a simple and easy to understand way ensures our SME customers can access sophisticated products and services previously only available to our large corporate customers.

We have a sound reputation to build on in the UK.

It was announced this morning that our subsidiary Yorkshire Bank was placed second in the Forum of Private Businesses survey of Business Banking.

Clydesdale was recognised for being the most improved British bank in terms of business banking service.

Our third area of distinctive capability is wealth management.

Few people probably realise that the National's wealth management business is a top five player in global terms in the manager of managers investment process.

Our investment process is not simply a funds supermarket.

Over the last 17 years we have developed investment solutions by diversifying across asset classes, fund managers and investment styles.

In the UK, the recent announcement of the move to depolarise the financial services industry is very encouraging for us.

As a result of depolarisation we believe the UK financial planning industry will now evolve down a similar path to that we have experienced in Australia over the last decade. The business we are building in the UK will be similar to our proven model in Australia.

In Australia our wealth management operation distributes roughly one-third through tied planning groups, one-third through

independent financial advisers and one-third through our branch network planners.

We have extensive experience in providing research, practice development and business services to financial planners to allow them to better serve their customer and increase their own productivity.

We are confident that our model will appeal to independent financial adviser groups.

In Australia in the last quarter, our business model, which we are rolling out here, was winning in excess of 20 per cent of net retail funds flows.

No other Australian bank appeared in the top ten in retail funds inflow in the September quarter industry data.

Having told you a little about the National itself I want to now focus on the broader industry issues that have shaped our markets and will create future opportunities.

The competitive landscape has changed in both countries, although there are some significant differences in the timeframes for those changes.

The last decade has been a time of strong economic growth globally.

CLICK [Real GDP]

Real GDP shows that although Australia is a small part of the world economy, it is a vibrant economy.

It may surprise you that Australia has enjoyed a decade of growth that has outstripped that of most other countries and this out-performance is forecast to continue.

The main factors contributing to this have been financial and labour market reforms and structural reforms to improve productivity. Australia was also fortunate by not being so exposed to the technology crash as has been the case elsewhere.

CLICK [Competitive Chart]

The reform process over the last two decades has also improved our competitive ranking in global terms.

This combination of strong, stable economic growth, de-regulation and increased competitiveness created rapid change in Australia.

CLICK [Industry development comparison]

Looking at the banking sector in each country there were moves in the same direction, but at different times.

These included the mergers of building societies which occurred in Australia in the 1980s but were more commonly happening the UK in the mid 1990s.

The demutualisation of building societies in Australia also happened earlier.

The major bank mergers in Australia happened in the 1980s.

The reforms in Australia have produced a very sophisticated and competitive financial services sector.

However despite these differences both markets have been able to achieve return on equity in the high teens and double-digit earnings per share growth.

The obvious areas of similarity between the two markets are in accounting, regulatory and legal systems.

A sound foundation in these areas has served the development of the banking sectors well in both countries and the similarity between the two regimes helped the National to expand into this market.

While the similarity in these areas has been a positive, some of the constraints to global expansion are in the related areas of tax, competition policy and extra-territorial legislation such as Sarbanes Oxley.

Australia and the UK are simultaneously experiencing several trends such as the flight to quality in life insurance and pensions and more extensive regulatory and consumer issues.

However, in the area of wealth management the trends emerging in the UK now are those of a decade or more ago in Australia.

The emerging trends in the UK will produce growth opportunities for all players and undoubtedly create similar changes in the industry here as occurred in Australia.

Both in Australia and the UK the move into wealth management is proving to be one of the most hotly debated initiatives.

Depolarisation in the UK is the trigger for fundamental change. The National has seen this unfold in the Australian environment over the last decade.

Different companies will tackle this opportunity in different ways in the UK. Through our Australian experience our plan of attack will be the manager of managers approach that I mentioned earlier.

I think the following slide is the most persuasive in looking at why banks have an opportunity in this area in coming years that they cannot ignore and indeed they must capture.

CLICK [The Wealth Management Opportunity]

This data is sourced from our Global Data Warehouse.

It is illustrative and shows the lifetime profit signature of a typical banking customer in our preferred market segment.

Customers go through a wealth accumulation phase, which ends toward the late 50's and then they enter a Wealth Consumption phase.

Because banking is primarily about wealth accumulation, profitability for banking peaks early when customers are in their mid-40's

[Click]

The bulk of the population – the baby boomers - have moved through this peak profit period and are beginning to enter the Wealth Consumption phase of their lives.

[Click]

In another decade they will be well into this consumption phase and the pool of profit available to banking in this premium segment will begin to decline.

If we overlay the profit signature where a full suite of banking and wealth management products can be sold...

[Click]

...we see that during the course of the next decade the bulk of the population will be moving into the peak profitability period.

[Click]

After age 45 over 50% of financial services profit comes from non-banking product.

This compelling analysis is based on the Australian experience but is valid for the UK even though it is at a different stage of evolution.

The strategic analysis provides the medium to long term incentive to offset recent difficult financial market conditions.

It is why we will invest significantly in the wealth management business over the next 4 years.

A substantial part of this investment will take place in the UK.

While we are investing in our businesses in the UK, we have also moved to streamline our operations in response to competition and this has meant some redundancies as we restructure.

Like all well-run businesses we also regularly review our portfolio of businesses in the light of changing market conditions.

The National took a strategic decision to diversify our income streams with expansion offshore more than a decade ago.

It is our view that the move into wealth management is as significant a change for future growth.

Our term for this is Integrated Financial Services. It is about growing through excellent relationships with customers.

Obviously delivering on that will not be without its challenges in a rapidly changing world but it is the area in several geographic regions where the potential for future growth is compelling.

In summary, the Australian experience has been one of rapidly increasing competition in which it has been important to develop distinctive capabilities and look for new markets in which those capabilities can be leveraged.

Thank-you.