



14<sup>th</sup> June 2016

Dr K. Henry  
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Dear Dr Henry,

It was refreshing to read your recent statement “a bank that truly puts the customer at the centre of everything it does should not need regulation”. Such a bold stance on the primacy of the customer is not something Australians expect from the chairman of a big bank but then again based on this and a number of your other recent public statements about bank culture and ethics you don’t seem to be like the other bank chairmen.

As a NAB shareholder, customer and former employee, your comments have resonated with me and I’d like to assist the bank with this transformational journey. Whilst you are probably already contemplating many if not all of the following suggestions, I thought it might be constructive to highlight several initiatives that would help NAB become a more respected, trusted and customer centric bank.

### **Culture & Ethics**

Unlike one of your fellow big bank chairmen who recently said, “there’s no culture problem in banks” you seem to get that there is. NAB is steeped in culture, most of it meritorious but some of it in need of overhaul after 134 years.

In the foreword you wrote for Dennis Gentilin’s excellent book “The Origins of Ethical Failures” you highlight the responsibility of leaders to “strive to articulate a meaningful social purpose underpinned by a virtuous set of values”. This is really important, ***please talk to us about NAB’s social***

***purpose and its values.***

Let's also hear more from individuals like Mr Gentilin, the NAB whistleblower in the 2004 foreign exchange scandal. Its encouraging that you think board members should embrace whistleblowers but its not just board members who can learn from their experiences, we can all learn from whistleblowers about courage and persistence. Potential whistleblowers are likely to remain concerned about the implications of taking a stand but an environment needs to be created where they feel safe and confident about doing the right thing. Whistleblowers, more so than say our sporting stars, should be held up as role models. Maybe think about appointing someone like Mr Gentilin as NAB's Chief Ethics Officer?

You and Andrew Thorburn are the only big bank chairman and CEO to have signed the [Banking & Finance Oath](#). One big bank chairman said "I'm not going to sign something saying I will be honest, I am telling you I will be honest" whilst another said "you can uphold all these things that are behind the oath without signing it". Both responses reflect a self rather than customer centric perspective. It's not so much what the banker thinks that matters here but what the customer thinks. Of course signing the Oath doesn't automatically make a banker honourable but at least it's a stake in the ground and besides, what's the downside?

NAB has more staff who have taken the Oath than any other bank. Please hold them accountable and even more importantly insist they do the same with you. ***And let your customers know that you want them to hold you and your bankers accountable for the Oath you have taken.***

You recently said, "***successful leaders will embrace humility***". Humility is not a trait for which NAB is renowned. In my thirty years at NAB I encountered perhaps a handful of leaders who could have been described as humble. Humility was never considered to be a characteristic that would assist in career advancement. In fact we were often the opposite of humble. With regret and embarrassment I recall how I once regaled a stressed customer who was facing the loss of his business with the comment "we'll still be here long after you're gone". I'm sure NAB has progressed since those times but equally I suspect there remains more that could be done.

## **Pay and Bonuses**

***The standing of banks in the community is unlikely to improve until something is done about pay and bonuses starting at the top.*** This problem transcends wealth management divisions and has its roots at the very top of all the banks. Bankers are more than well remunerated for what they do and bonuses drive behaviours that place the short term interests of the individual, bank and shareholders ahead of customers.

Indeed, its reasonable to ask why bankers should be paid a bonus at all, they are already well paid by an employer which is not going to go broke any time soon. The CEO of Deutsche Bank, John Cryan has questioned the need to pay bankers, including himself, bonuses saying that “people in the financial services industry are already paid too much with many believing they should be paid entrepreneurial wages for turning up to work with a regular salary, a pension and probably a healthcare scheme and playing with other people’s money.” He added “I will not work any harder or any less hard in any year, in any day, because someone is going to pay me more or less.”

Certainly when a bank has underperformed it is galling to see executives receive bonuses. Equally unpalatable is when a leader leaves a bank that subsequently underperforms and there is no mechanism to claw back bonuses already paid.

Aside from the quantum of pay and bonuses, the KPIs upon which bankers are measured need to be reviewed. KPIs for line bankers are still weighted heavily towards financial outcomes such as sales, volumes and profit. Of course they must meet other expectations including compliance and customer satisfaction but the deeply ingrained NAB sales culture encapsulated by the mantra of “show me the numbers” remains alive and well at the coal face. It can be counterproductive for bank leaders to persist with public messages about caring for customers whilst continuing to drive front line troops to achieve challenging sales targets.

## **Customer Engagement**

Genuine long term engagement occurs when customers feel they are respected, listened to and looked after. Customers want a bank that is honest with them, responsive and demonstrates by its actions that it can be trusted. They want to stay with a bank for positive reasons rather than because it's too

hard to leave. Here are some actions the bank could take to show customers that you are serious about putting them at the centre of everything you do.

***Transparency in interest rate movements.***

Most customers believe banks put their profits ahead of customers when it comes to movements in official interest rates. Why not adopt a totally transparent and equitable stance on passing on RBA Cash Rate changes by guaranteeing that the amount and timing of your rates changes will be exactly the same for borrowers as it is for depositors. And this policy would apply to both the personal and business segments. So if the RBA Cash Rate drops by 0.25% and the bank decides to pass this on in full to customers it means depositors will get 0.25% less and borrowers will pay 0.25% less from exactly the same date.

***Allow customers to use their data for their own benefit.***

A truly customer centric bank would embrace initiatives like Comprehensive Credit Reporting (CCR) and open data Application Programming Interfaces (API's).

CCR is all about credit providers being willing to share an individual's positive credit history data. The code is currently voluntary although none of the big banks have yet adopted it. A positive credit history is an asset for a borrower, they have earned it so let them get the benefit of it.

The same philosophy should apply to a customer's transaction account data. By embracing open data APIs other organisations like marketplace lenders could directly access transaction account data in a way that would maximise the prospects of the customer obtaining credit on the best possible terms with the minimum amount of time and fuss. Greater customer access and ownership of data is inevitable, it's already happening overseas. It is understandable that banks fear this could lead to loss of business and there are also security and legal issues to consider but trying to retain business by impeding the ability of customers to utilize data is putting the interests of the bank ahead of those of the customer.

***Bank Account Transportability.***

Have the confidence to be the first bank to openly say to customers "if you decide to transfer to another bank, we will make it as seamless as possible".

Arguments citing impracticability and cost don't stack up considering 15 years ago mobile phone carriers introduced mobile phone number portability. Surely its not too big a technology ask to do the same with bank accounts?

***Convert branches and business centres into Community Hubs.***

The banking prophets of doom claim that the vast empire of branches and regional centres are a liability because they account for over 30% of costs. An alternative perspective is that your property footprint is an asset. By using bank premises as a community hub you will be able to offer an experience which non-bank competitors could only dream of. You could run seminars, live interactions with specialist bankers as well as a range of social and community activities. NAB need look no further than “The Village” at Docklands which is a community hub for a range of customers who genuinely value the opportunities it affords them.

**Where to from here?**

The above suggestions would help NAB become a more respected, trusted and customer centric bank. Does the board and your leadership team possess the belief, determination and capacity to stay true to your customer centric ideal? Will you be able to persuade shareholders, staff and other stakeholders to join you on the journey?

Before these questions can be answered, you and your board face an even more fundamental question - ***are customer centricity and profit optimization mutually exclusive or entirely compatible goals?***

Dr Henry, full credit to you for taking an unequivocal public stance on big issues like culture, ethics and the primacy of customers. Indeed, by putting the customer at the centre of everything it does the bank should not need regulation. And furthermore all stakeholders would in the longer term be better off.

Good luck on the journey.

Neil Slonim