

## News Release

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### **Transcript of bluenotes video interview with ANZ Group Executive Digital Maile Carnegie and ANZi Managing Director Ron Spector**

**Andrew Cornell** Well, thanks Maile and thanks Ron for joining us today on bluenotes.

We're here to talk about ANZi or what it's now going to be called 1835i, which is essentially and correct me if I'm sort of not spot on here, but it's the investment and innovation arm of ANZ which up to date is being part of the bank. But there's actually a lot of attractions to making it more independent.

So I wonder, Maile, if you can run us through the thinking behind spinning out ANZi and renaming it. Are those imperatives as an operational or regulatory or strategic or even a bit of all?

**Maile Carnegie** Yes well actually, there probably is a bit of all of the above because if you take a step back and say, OK, what is the mandate of this group? It's really we're asking them to explore and actually start to create new businesses, new business models using emerging technology and also using kind of emerging, new high-growth young businesses. And that's typically a risk appetite which is hard for a traditional, particularly highly-regulated business, like ANZ to know how to manage and what to do with.

So we're trying to get them to do that. But also this is a strategic fund or a strategic investment. So we need them to do it in a way which is very aligned with our broader strategy of the group. And that's a really tricky thing to get right, because at one hand, you need them fully immersed in kind of everything ANZ. But at the same time, you need to have them sufficiently independent that they're not getting tripped up by all the internal systems and processes and everything that kind of comes with being, you know, having an ADI licence.

And so really, the objective of spinning them out is they've done a terrific job now for three years, really getting some momentum. We've made a number of really smart, savvy investments. We've got two new businesses that we're on the cusp of launching. And they deeply understand now the strategy, the company, they've got great networks within ANZ. So that strategic alignment is really tight. And now it's time to let them live outside and really start running at a pace, knowing and having confidence that they understand what's going on in the mothership and what they need to deliver back to us.

So that's kind of how, you know, if you say what mental picture do I have in my head about what we need? What we're trying to achieve here is that we need ANZi or this new entity to still kind of be orbiting the mothership of ANZ. But we made them far enough away from that gravitational pull that they can actually get some speed and a bit more speed of momentum. But it's really exciting. It's a real testament to

what they've been able to achieve to date.

**Andrew Cornell** And Ron you've been running the business and will be running the new 1835i and the name reflects that ANZ began banking, or its antecedence began banking in 1835. So it carries on that tradition of innovation.

But to Maile's point, how much more can you do if you get to sort of pull away from the gravitational pull of the mothership there?

**Ron Spector** I think Maile captured it quite well. The intent is not to leave the bank - we call it living next door. So we're going to get just outside that gravity pull so that we can run much faster with much less friction and much more efficiency. And so we actually think we can do a lot more in a shorter period of time with better outcomes for the bank by not having to spend such a great deal of our time managing the bank and our relationship with the bank internally to enable us to get the things done that Maile and Shayne want us to do.

So we see a big speed component. We see a business efficiency and a cost advantage. We also can have a much better chance in a highly competitive environment to recruit and retain the best talent. Because I think as we've seen in the market, I don't think anybody is struggling with the strategy now of what financial services institutions need to do to respond to the digital revolution and a lot of the disruption from technology platforms. It's all about execution. And execution 100 per cent comes down to the people.

So I think this will make us much more able to be competitive in market because we're bringing people into an environment where we're getting to work on world class, world leading stuff. And we're doing it on behalf of ANZ, which is a global 30 powerhouse. But at the same time, they're getting to use the best tools. They're getting to use the best processes in a culture that's very much about a startup innovation environment. And I think that will give us a competitive advantage.

**Andrew Cornell** Obviously, Ron you come from this kind of background. You've got deep experience there. But we've seen in financial institutions, traditional ones, have a variety of strategies in recent years around startups and fintechs, ranging from almost venture capital funds to in-house offices. Has it emerged now that the way that you're hitting with 1835i is perhaps the best way to go? Have you learnt from what's been going on in the world?

**Ron Spector** Well, I have to be honest, we started with this thesis - Maile and I talked about this four and a half years ago, which was how do we learn from the historicals of where companies have got this right and where they've got it wrong. And to the bank's credit, when I arrived I said, "why don't we skip four or five of the critical mistakes that are usually made?" Let's just skip those, take it as read, and let's design a function that can actually solve problems and take advantage of opportunities in a way that benefits the bank and do it faster. So I would argue that in the sort of three years we've been at this, we're at the level of maturity of these types of functions - it's more like the years seven or eight. We just skipped over a lot of the mistakes.

We have an integrated function where we can build where there's white space, we can partner with the best and brightest. We can use investment to bring those partnerships and influence tighter between the portfolio company in the bank. And we can make acquisitions. So

we really have every tool in the toolkit. And the key that's different from anybody else that I've seen globally is it's an integrated function. They all kind of work around the specific strategic thesis that has been articulated by Shayne and ExCo, and our mission is to deliver on our part of that. And traditionally, you don't see that. Traditionally these kind of functions kind of go off the reservation, which is easy to do. There's a lot of interesting, fun, creative things you can do in the world. But if it's not aligned to the strategic outcomes that the bank requires and the bank needs, then it's doomed to failure.

So I think when Maile talked about the alignment, I think that's critical. Everything we do is through the lens, whether it's horizon one, two or three, it is all aligned around how does this benefit ANZ, our staff, our customers and our partners either by bringing new products and services or new capabilities. And I think that's critical. And that's where we just skipped over a lot of the mistakes other organizations have made.

**Andrew Cornell** Maile, given that perspective, will investors see something immediately? Is there an immediate impact on the group? Obviously customers, hopefully, and the staff will see new services and new products as they evolve. From the investment perspective, is there a big change to the shape of the group to how this fits in?

**Maile Carnegie** I think from an investor standpoint, it's not going to be a massive change, because one of the things that Ron and I have tried really hard to do is to keep what I call the kind of a target on our back, pretty small. We're trying to be very pragmatic and kind of earn our way to grow instead of having a massive team trying to justify itself. So, I mean, from an investor's standpoint, initially, what they're going to see structurally, 1835i or what was previously ANZi that it will no longer formally be part of the enterprise, the ANZ Banking Group. So they're still going to be part of the family, as we talked about, but they're not formally going to be part of the structure. But as Ron said, we're going to start seeing is really this better, faster, cheaper kind of scaling of the innovation that we've already started and also just finding new ideas.

I think the other thing that investors are going to start appreciating a lot more is, as Ron said, the game isn't just about talent anymore. That's obviously really, really critical, we need to make sure we're attracting and retaining the best talent to work directly in the business. But the other really big game is winning the war on partnerships. Because when you look at where innovation is happening globally, the vast majority of it is typically happening outside of the company rather than inside the company. So having a team that can be great partners is also going to start to accelerate the value that our shareholders are going to start seeing. And so one of the things that this change is also going to mean is that from a partner's standpoint, Ron is going to be able to move much faster, which will be great. And obviously, hopefully we'll start seeing some accelerated benefits back for shareholders as well.

**Andrew Cornell** And as you say, the points that Ron has made and Shayne Elliott has also been making this quite a lot in these recent presentations in that we have to think about ecosystems where we have partners who do things that the bank can't do or doesn't necessarily want to do. But it's what customers want and it helps the deeper experience. So each of these decisions has to fit in directly with the bank's strategy doesn't it?

**Maile Carnegie** Absolutely, and if you think about being a potential partner of ANZ.

Having a business or an entity like what Ron is going to be standing up outside the bank is just going to be a much easier and significantly less frictional way to actually interact with ANZ. So we're really excited about the potential partners that Ron's obviously going to be able to continue to bring back into the bank as we try and build out those services to our customers.

**Andrew Cornell** And Ron, to that point, putting on maybe the hat of a potential partner. We've seen a shift in recent years when fintechs first hit the headlines it was this idea that traditional banks were dinosaurs and fintechs were going to take over the world. But now we've seen a much greater willingness to work with established institutions, how do potential partners of major banks like ANZ think about what they want to do and who they want to become involved with?

**Ron Spector** Well, it's a great question. I think there was a bit of an unsophisticated view of what got lumped together in what's called "neos". There were startups that were trying to become banks and then there were startups that were not interested at all and becoming banks. They were taking a financial services product or service offering that was highly inefficient, expensive, not particularly customer friendly and they were just saying we can do dramatically better job. And years ago, CB Insights called it the "dismantling of the end-to-end bank" because it wasn't going to happen by a neo competing with ANZ head-to-head as a bank. It was going to be 100 neos taking 100 products and doing it better. So I think now what's happened is we've seen the neos that are trying to be banks struggle because it's a hard business and we've seen the ones that have point solutions that have done it better, cheaper and faster are really scaling.

And I think they're very interested in partnering because what banks bring is all the underlying infrastructure and they bring another distribution point. So we're seeing in our investment portfolio, every single one of our portfolio companies wants to partner with ANZ. They want to co-develop product and service offerings. They want to integrate technology capability that we can provide to our customers and our partners, or they want to have a channel to help them distribute their products and services either directly under their brand or white labelled through our brand to our customers. So those are the opportunities that my team are focused on. We look at the investment lens strictly as a means of sourcing those companies, having influence with them.

But really the underlying value proposition is those partnerships. And this is what the bank has to get extremely good at doing. And if they can do it, then externalised innovation where things come from outside into the bank and to our customers and partners will be so much quicker and so much more efficient than trying to build everything ourselves.

**Andrew Cornell** And why would they want to partner with ANZ as opposed to say HSBC or Standard Chartered or Bank of America or one of the other Australian banks?

**Ron Spector** Well, some of them do. Some want to integrate with everybody. Some have a particular interest in our customer set, our values. We have a very specific presence in the market about how hands-on we are working with them. I think some of them resonate to the culture that Shayne has been building over the last few years in ANZ.

Our market position now is being perceived as not as the establishment but we're really perceived as a bank that's undergoing transformation both culturally, technologically and in simplifying the business. So I think it's a range of reasons. And to be quite honest sometimes it's the people. We work pretty hard with these young companies to add a lot of value outside the context of a relationship with ANZ. And I think there's a general appreciation that we approach our position in the market representing ANZ, not as what's in it just for ANZ but how can we go in there and help these young companies grow and prosper independent of the bank? And then how can we foster relationships with ANZ that result in a win-win? And I think that's very different than their experiences of dealing with some of our peer banks.

**Andrew Cornell**

And Maile, over the last couple of years that you've been at ANZ, you often get asked what does the bank of the future look like? And I know in the past what you've said is, "well, no one knows what the bank of the future will look like but you need to be a bank that can adapt and be flexible".

Is it becoming a bit more clear that the bank of the future is going to be a bank with ecosystems and collections of partners? Is that one of the things you think is settled?

**Maile Carnegie**

I've always loved an observation that Bill Gates made a while ago where he said people are always going to want banking services but they're not necessarily always going to want a bank. And I think there is absolutely going to be a role for something called a bank in the future. But to what you're getting at, the amount of value or utility that entity is going to have to provide to customers in order to be successful is going to be significantly higher than where it's been historically and where it is today. And that kind of gets to if you're really going to have to offer a tonne more value to customers to really make it worth their while to engage and spend their time engaging in a bank, that you are likely going to have to have a lot of partners to enable you to do that.

I also think, though, going back to the point that Ron was making earlier, we are starting to see the kind of atomisation or the overuse of "banking as a service" where you're going to start seeing banking services pop up into all sorts of other places because customers just want to have a frictionless access to a banking service. You see that absolutely with Amazon getting into financial services all around. And so when you look at what we're doing at ANZ - and some of it will emerge over time, similar to what you're seeing with ANZi - we are absolutely rebuilding ourselves to be able to play in a really effective way into that much stronger value proposition as a traditional bank. But also you're seeing us do things like the new payments platform where we are able to craft solutions where we can service other banks or other organizations.

So, we're moving forward assuming that banking will start to have a number of different business models and we are shaping up to be able to play in that variety of business models versus just one.

**Andrew Cornell**

And this is obviously an area there's a huge amount of competition and, by its nature, it's necessary to be a bit secret about what's going on. But Ron are there are a couple of things you're doing that you can talk about. And I'll note you've been involved in a series that's published on *bluenotes* where we talk about some of the particular investments and partnerships already made but are there things you can talk about that you're excited about on the horizon?

**Ron Spector**

Yeah, I think that it's pretty obvious that we're a big supporter of our friends and Lendi that just merged with Aussie Home Loans. And we think the digitisation of the broker process, we're only in the first innings of that and it's going to grow over time. We think a proposition that we launched called OneTwo which has actually written its first couple loans as we speak and is about to go into a pilot period leading to a full release later this year, will be a world-first digital platform supporting the mortgage process. And it's actually IP that the bank itself is looking at now and helping with our own processes.

Obviously, we're continuing to partner with our friends at Airwallex out of Hong Kong. They've just issued an actual card to ANZ customers in that part of the world using their Airwallex backend for processing foreign exchange and multi-currency wallets. So we're doing a lot of interesting things across both Institutional, home ownership and the small business area. And more and more, what we're doing is going deeper on the data side. We're looking at content-based data platforms and our ability to not just support open data as a regulatory requirement but how can we start really actualising the value of the massive amount of data that ANZ has, that our partners have and that our customers are more than willing to allow us to use, provided it drives a tangible benefit back to them. So we have a lot of work going on in that area as well.

**Andrew Cornell**

I've covered banking as a journalist for 35 years and it is an incredibly exciting time. Maile, as you say, Ron's business is moving from being part of the household to into the house next door. As the landlord, what do you think 1835i is going to look like over the next three to five years? What are you hoping to see?

**Maile Carnegie**

Well, what I'm absolutely expecting to see, rather than hoping, is that we are going to start to stand up some genuine businesses that get scale and impact in the market. And Ron has just alluded to some of them that we're standing up. And from a shareholder standpoint, we can actually start showing a really demonstrable impact on our core business in terms of the ability of those new businesses to either create competitive advantage for our core business through data or engagement. So that would be one.

And the second thing is you're going to start seeing us march forward at pace with what I described earlier as that real step-up in value to our customers, particularly in the Australian Retail and Commercial space. And again, I think we'll be able to start getting much more transparent with our shareholders on the role that some of these investments we're making, the role they're playing in helping to differentiate for our existing customer base. So we're on the cusp of something really exciting.

And as I said at the beginning, I think the ability to unshackle Ron and his team to actually start moving at pace and go from a trot to a full sprint is going to be exciting because I know what they've delivered to-date is outstanding and I can't wait to see what we're able to do in a couple of years. It's really about getting scale now.

**Ron Spector**

I'd just like to add to that. The purpose here is to industrialise the function so it can scale and outlive me and my team. The idea is it becomes a permanent, embedded driver of innovation and value to the bank and our shareholders into the future. And the objective is, as Maile said, we want to have half a dozen businesses that we've

launched in market that have multiple billion dollars' worth of the enterprise value and are generating revenue and dividends to the bank and the shareholders. We want to have 40 or 50 portfolio companies across the investment side that are, in aggregate, delivering new products, new services, new capabilities that benefit the bank, the customers. We have to get it to scale and use the model that we've seen work successfully in the world for this to be something that continues to spin.

It isn't that we hit a one-off over here, a one-off over there. By doing a lot, you don't have to win with every one of our propositions. We just have to have enough of them be successful that it will drive significant value to the bank. And to do that, you do need to play the numbers game a bit. And part of that is building the function out so it can scale and then the capabilities.

And then five years from now, I want to read about it in the AFR as I'm retiring saying that we got there. We got to that critical mass and scale that the value to the bank is absolutely direct and that the function is now paying for itself and it's perpetual. It can continue to create value going forward.

**Maile Carnegie** When you talk to people in the US and in the UK in particular, there is a huge renaissance going on in terms of innovation and entrepreneurialism. And I think often when an economy, a community and society goes through extreme stress, the back end of that can actually create some magic. And when I talk to my network in the US and the UK, they're absolutely seeing a huge wave of innovation from COVID-19.

If there was a real dream for what Ron and the team do in five years' time is absolutely creating benefit and more than paying for itself and creating huge shareholder value for ANZ. But as a broader Australian economy, we need some catalyst for innovation in general, because my spider senses aren't picking up on the type of explosion in innovation in Australia, as I'm hearing is starting to happen in the US and the UK. So I really hope this new birthed entity can also be a catalyst for the broader innovation ecosystem in Australia, not just for ANZ.

**Andrew Cornell** It's very true, isn't it? We need to be a smart society to continue to prosper as a nation here. But that was a fascinating conversation. So thanks both of you very much for your time. Good luck with 1835i.

**Ron Spector** Thank you.

**Maile Carnegie** You're quite welcome. Thank you.

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