

Kiwibank: From thought to reality

I am delighted to be here today and to tell you about Kiwibank, the concept, the development and now the reality.

Let me give you an idea of just how successful Kiwibank has been.

And then I'll tell you why it has worked.

We've topped 600,000 customers and are still growing by 1800 customers a week.

Now when I first became involved with the bank, that was four years ago, we had projections of signing up 250,000 customers by the end of the third year and could expect the number joining the bank to slow significantly from that time.

I guess we didn't "think Big" ... well not as big as it turned out we could have!

A few other figures about Kiwibank that are pretty impressive.

- We sign up a billion dollars a year in Home Loans
- We receive a billion dollars a year in deposits

So why does it work?

How did the thought become reality?

It all dates back to the year 2000.

What was going on were very intense discussions about what needed to be done to ensure the long-term survival and profitability of New Zealand Post as a company.

Some of you will remember National Post, There are still Blue mail boxes around some cities.

Post had seen competitors come and go, but knew the 21st century would see massive changes in the way people communicate.

Sure there would always be some letters and bills. Some parcels, magazines and Christmas cards. But it was clear the volumes would drop and revenue would fall.

The substitute for electronic versions of mail is immeasurable.

Post looked at its options and chose a number of strong commercial revenue streams to keep the company strong.

There's Data Mail (Electronic mail distribution – Advertising), The courier Business (Courier Post & Pace), Increased use of the mail system for direct marketing ... and there's Kiwibank.

The idea of a New Zealand-owned bank had been floating around in the public domain for some time. The BNZ has been sold to National Australia Bank, Westpac has taken the TSB (Including your own Canterbury Savings Bank)

Jim Anderton was pushing the idea, but there were no real takers from the business world.

The National Bank, subsequently bought by ANZ, has bought countrywide bank and even the ASB had been bought by the Commonwealth Bank of Australia.

However, NZ Post was interested in becoming a Bank. It had a nationwide network of more than 300 shops. It had foot traffic through those shops of more than 600,000 people a week coming in, with an across the counter turnover of more than a billion dollars a year.

The question was: What else would those people be likely to want to do through a Post Shop.

A large number of those people were associated with small businesses... People coming to clear their Post Boxes.

Others were the mums and dads and children in the local area.

Banking seemed a logical additional service. After all it had worked once before with Post Bank. Unfortunately, that had been sold to the ANZ Bank in the late 80's.

Much happened during the rest of the year 2000 and 2001. Feasibility studies and costings were completed. It takes a lot of money and effort to build a bank.

Mid way through 2001 it was clear that a Bank was going to be a reality and attention turned to the governance structure required for a Bank.

There is a lot involved in this too. The need for a separate Board of Directors, Registration with the Reserve Bank, setting up the security facilities and creating the accounts, transaction procedures and all the other bits and pieces required to run a Bank.

The other Banks (those Australian competitors) have had over 150 years to develop their policies, procedures, systems etc, we had to do it in 18 months.

What's in a name?

There were plenty of people who claimed to know what this new Bank was to be called and "informed" statements issued by people included.

- Our Bank
- The Peoples Bank
- Post Bank
- Jims' Bank (that's two Jims – Anderton and Bolger)
- And Kiwibank

Kiwibank was the logical name. It said it all: New Zealand ownership, New Zealand Banking for New Zealanders and that indefinable thing that is ... Kiwi

So in November 2001 we unveiled New Zealand's worst kept secret and announced the name: Kiwibank.

The next few months were very interesting.

The critics were quick to condemn the plan. They said it would fail. They said the franchise operators for Post would not sign up to have the Bank and they said New Zealand didn't need another Bank.

But the research showed differently and Post ... with the support of the Government ... Stuck to the plan.

In December 2001 we received registration from the Reserve Bank and in February 2002 we opened for Business in Palmerston North.

Four weeks later we launched the nationwide rollout. The plan was for 300 shops to have Kiwibank Services within two years.

The initial response was gratifying, but we knew there was core support. The big question was “how much support?”

We took a position in the market of lower fees, better services and longer trading hours.

The critics said it was only beneficiaries and children that were joining. Some franchise operators showed a reluctance to sign up.

We persevered. We resolved the issues with Franchise operators, we delivered on our better service and lower fees proposition ... we were named Best Bank by Consumer Magazine two years in a row and have been named Best Value Bank by Cannex (an international Bank organisation) for the last two years.

One year after starting business we signed up our 100,000th customer – A lovely couple in Waiuku, South Auckland.

They are still with us ... and so is their mortgage.

We opened Bank branches where every other Bank had left town (there are more that 40 towns and suburbs where we are the only bank in town)

We promoted our lower Home Loan rates and our higher Deposit returns.

And the customers came and kept coming.

Each week we signed up about two thousand customers and it quite simply hasn't stopped.

I joined Kiwibank in March of 2004 to establish a Business Banking operation.

It took almost 12 months to develop the complex systems, products, documentation and processes needed by businesses.

Our initial target was small businesses borrowing up to \$1.5M. We aimed too low; in March 2005 our second application was requesting \$2.55M. And it was a very good proposition.

From a small team of 6 people in Wellington we now have a total Business Banking team of 85 with 17 Business Banking centres spread from Whangarei to Invercargill. One of our most successful centres is here in Christchurch, based in Sydenham. Right next door to the NZ Post shop/Kiwibank.

We now have about 11,500 business customers.

We take on about 300/350 new business customers per month.

We have a total book, loans and deposits of over \$2.0B.

We grew the whole operation from zero. On day one it was me, a desk and a computer.

As finance companies and Superbank have fallen by the wayside, we have picked up extra customers and extra dollars.

We aimed for a profit after three years of Business and we achieved our objectives. Business Banking was also profitable within 19 months of commencing operations.

Last year we made a profit of twenty five million dollars after tax at 33%.

So why has it worked and what difference has Kiwibank made to New Zealand?

The obvious answer is big two reasons:

- New Zealand owned
- Better service

But there is more to it than that.

New Zealanders have watched as the big banks stripped literally billions of dollars a year out of the country, saw fees rise year after year, services reduce, branches close and essentially the control of all banking residing in Australia.

They were accustomed ... but not happy ... with the adage that you do your banking at the time most convenient to the banks (nine to 4.30pm Monday to Friday, and that does not include the Banks that have late opening on Tuesday and Wednesday.) You can shop around, but there is basically no difference between the Banks.

Kiwibank changed all that and customers started to take notice.

Mums and dads did their banking and put money into their children's accounts as part of their Saturday Shopping.

Home Loan customers' found there was a genuine competitor when it came to Interest Rates.

Those with money to invest shopped around and kept coming bank to the Kiwibank rates.

Kiwibank snubbed its nose a bit against the big Banks with cheeky adverts.

Chief executive Sam Knowles has had an extremely high public profile.

People realised that a New Zealand-owned Bank could succeed.

As Kiwibank grew, the banking industry in New Zealand started to change.

Margins on interest rates for loans were trimmed, Credit Card rates dropped, fees were reduced, and banking hours were extended.

Coincidence ... I do not think so.

But many people believe the reactions from the Australian Banks has been too little too late.

The momentum to switch to "Our Bank" is increasing, not decreasing as the Aussie Banks expected.

Will we keep up the pace? Yes I think so; we are doing a lot of development for continuing future growth.

It is our aim to ensure that Kiwibank will have an entrenched and strong position in the New Zealand market. It will be self-sustaining with capital funding requirements. It will be paying a healthy dividend to New Zealand Post. This is really the New Zealand Government and you the tax payer.

The other banks will watch as Kiwibank introduces new products and new technology ... Just look at texting and mobile banking (the Bank branch in your pocket, Sam called it). The managements of the Aussie Banks with Head Offices in Sydney and Melbourne will mutter about Kiwibank and realise that they will have to try and match what Kiwibank is doing.

All people with Bank accounts will benefit.

From the success of Kiwibank and so will you as a tax payer.