

Banking royal commission isn't the only fire under NAB chief Andrew Thorburn



Andrew Thorburn: "I feel I want to be a leader who will face into issues and own them, and lead us through them – not step over them." *Simon Schluter*

- by
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Andrew Thorburn is frantically drawing on the table.

The National Australia Bank chief executive is a notorious scribbler who loves emphasising a point with a whiteboard marker in hand. As we speak, he covers the glass-topped table in the anteroom outside his office with red squiggles.

Two letters stand out at the centre of these squiggles, lines and circles: BP, which stands for “burning platform”. That is how Thorburn describes the banking royal commission, which he admits has become the first topic investors now raise. Is there going to be more regulation? Will

costs increase? Will bankers become more risk averse now every aspect of misconduct will be, in Thorburn's words, "elevated and exaggerated"?

But the royal commission is not Thorburn's only burning platform. The NAB boss is also trying to remake the bank in the face of slowing credit growth and has been hit by a multimillion-dollar fraud. Over the past six months NAB shares have performed even worse than those of [Commonwealth Bank of Australia, whose money laundering scandal has added to its list of woes.](#)

If the pressure is taking a toll on the man, it isn't showing. Indeed, it is almost as if Thorburn is energised by the number of fires he has to put out. He is happily out there, pounding the pavement, [selling the story.](#)

Thorburn, who succeeded Cameron Clyne as NAB chief in August 2014, says the bank needs to get back to basics to win back the trust of the community, even if it is not yet clear what specific changes will flow from the royal commission.

"As an industry we have drifted, we've lost touch, and that's not good enough," he says. "I've been a banker my whole career, and I'm proud to be a banker. But I'm ashamed of some of what we have heard during the royal commission, including issues at our own bank. It's unacceptable. It's not what banking is about and we must, and will, change."

Thorburn is apologetic but he doesn't have much truck with critics who argue the banks have a systemic cultural problem.

"We also have to remember that this is a royal commission into misconduct. So we're seeing a slice – an accurate and painful one – of cases where things have gone wrong, and not the large majority of good conduct. Our people's behaviour, commitment and ethics is overwhelmingly positive.

Andrew Thorburn: "I feel I want to be a leader who will face into issues and own them, and lead us through them – not step over them." *Simon Schluter*

"You've got to take a bigger picture here. The bank has been around a long time. The bank has been through incredible cycles, world wars and depressions, deregulation and regulation."

Change, he assures, will come. "There is a burning platform for us now to reimagine what banking can – and should – be. In some ways, we need to go back to the basics: serving clients, handling people's money, having simple products and services, and being trusted members of the community."

Strategy set on fire

Trying to steer a company of NAB's size past one burning platform would be hard enough for most CEOs. But just a month before the banking sector asked the government in December 2017 to call the royal commission, Thorburn decided to set fire to his own strategy. Enter burning platform number two.

To get the message through to those inside and outside the bank, Thorburn admits he needed to "shock it a bit".

On November 2 [last year](#), Thorburn announced a plan to invest \$1.5 billion over three years to simplify NAB's systems, processes and products, boost its market share in business banking, rebuild its technology platforms and slash costs. About 6000 jobs would be cut, while 2000 staff would be hired in [specialist areas such as technology](#). The number of products would be halved and \$1 billion in costs extracted by the end of 2020.

But there is a trade-off. Costs are forecast to rise between 5 per cent and 8 per cent in the 2018 financial year as a result of its big restructuring bill, and will be flat over 2019 and 2020. In a low-growth environment, that means profits are under pressure for the next three years.

Thorburn warned the market if NAB didn't change, it would be overrun by rising compliance costs, soaring customer expectations and emerging competitors from the tech world. He [returned in April](#) from a visit to Silicon Valley and the global headquarters of Amazon and Microsoft in Seattle "more firm in my mind than I have ever had ... there is huge disruption coming" for the banks and "we must accelerate the change".

To get the message through to those inside and outside the bank, Thorburn admits he needed to "shock it a bit".



"We just have to work through the royal commission calmly," says Thorburn.

"We had to say, the economy's changing, there's more competition, margins are going to be squeezed, we've got costs that are complex and inflexible and sticky, and we've had people who, whilst they are committed, haven't had to do rapid change. It's not like mining companies or retailers or telcos or media where [they have] had to change so dramatically.

"The reality is the next few years things are going to change much faster with data, fintech, Amazon, Alibaba and Ant Financial [formerly Alipay] – that is the change that's coming to our economy. There will be more change to the business in the next five years than there has been in the last 20."

The need for this change – particularly in the area of technology – is emphasised the day after we speak, when NAB suffers a [network outage](#) that hits mobile banking, ATMs and eftpos for several hours.

[Former NSW premier Mike Baird, who joined the bank in February 2017](#) after becoming friends with Thorburn through St Matthew's Church in Sydney's Manly, describes Thorburn as the "critical piece" that made him choose NAB over other opportunities "He certainly has a real sense of urgency about [his vision] and he's driving us and taking us with him," Baird says.



Former NSW premier Mike Baird, right, joined NAB in February 2017 and is regarded as a possible successor to Thorburn. *Pat Scala*

But when you play with fire, you risk getting burned. Since Thorburn announced his plan on November 2, NAB's share price has fallen 17.4 per cent, compared with a 13.5 per cent fall in the bank index and a 1.5 per cent rise in the broader market.

Even the scandal-hit Commonwealth Bank has fared better over that period, with its stock down 10.6 per cent.

Few analysts disagree that Thorburn's investment plan is needed, although Macquarie analyst Victor German argues it is "partly a result of historic underinvestment and partly management's desire to better position the bank for the future".

Sceptical investors

What worries analysts is the investments are being rolled out at the same time revenue growth is slowing across the sector.

“The decisions that management need to make as part of their multi-year restructuring plan has removed their ability to adjust costs when revenue growth is lower,” Citi’s Brendan Sproules says.

UBS analyst Jonathan Mott, who is particularly bearish on the banks at present, also sees problems with NAB’s strategy of targeting specific business sectors.

“We remain supporters of NAB’s strategy to reinvest in its core strength of business banking. However, NAB is still a large mortgage bank, which makes up 60 per cent of gross loans. NAB’s key priority segments of education, government, health and agribusiness only contribute about 6 per cent of its book, while other SMEs contribute a further 12 per cent,” he says.



Thorburn says there is huge disruption coming for the banks and "we must accelerate the change". *Janie Barrett*

“While there may be growth in these segments, it will be challenging to move the dial in the face of a slowing housing market. Further, if the housing market slows sharply there is likely to be a spillover to other segments, in particular SME.”

Thorburn isn't surprised by the investor reaction and understands why the market is worried about the outlook for the next few years while NAB's investment phase is under way.

"We knew this would happen and the board knew this would happen. [But] not one investor – and I've seen dozens and dozens and dozens – is saying the strategy is wrong.

"They're saying, you're throwing more money at it, what am I going to get for it and can you actually transform the bank? But no investor is saying it's the wrong strategy."

Matt Haupt, portfolio manager responsible for Wilson Asset Management's large-cap fund WAM Leaders, is a fan of Thorburn and sees his small stake in the bank as a long-term bet the NAB chief can deliver on costs and grow at something more like the industry average.

Need for clarity

But he is sceptical about the investment plan and says Thorburn hasn't provided enough detail on exactly what projects are going on inside the bank and how those projects will make NAB better.

"We just need more clarity on what does the bank look like after that. We don't have the granularity to make a judgment call," Haupt says. "It sounds good in theory, but are you going to get the capital return?"



Communicator: Thorburn appears before the House Economics Committee in Canberra last October. *Andrew Meares*

Haupt can also understand why investors might sell now, and buy back in a few years when they can see if Thorburn's plan has worked. "The biggest stumbling block is the execution risk," he says. "No one knows if this is going to work, and do you pay for that now?"

One fascinating feature of Thorburn's strategic shift was the decision to be so upfront about the huge number of jobs that would go. Many companies prefer to describe job cuts in dollar terms to try to soften the blow.

"We chose to be explicit," Thorburn says. Staff know deep down that there is no hiding the fact that cost cuts mean job cuts.

"We want to treat our people like adults and we want to have a mature conversation, not a protected, paternalistic one." He adds that retraining will occur where possible, and \$47 million of the \$755 million in restructure costs has been earmarked for a career transition program. But as much as Thorburn believes in the need for the bank to change, he admits that leading during such a brutal period of change isn't easy.

"I find it draining and I find it sad sometimes, absolutely."

When the first big round of voluntary redundancies was finalised late in 2017, Thorburn asked for a list of those departing.

"I phoned about a dozen who I knew, and I wanted to do that, but it's hard.

"You've got to have that sense of, I know why we are doing this, it's worth it. I feel I want to be a leader who will face into issues and own them, and lead us through them – not step over them."



Thorburn says NAB needs to have simpler products and services that the bank and clients understand. *Janie Barrett*

Thorburn's attitude to leadership was greatly shaped during his stint as chief executive of NAB's Kiwi subsidiary, Bank of New Zealand.

The 52-year-old is often mistaken as a New Zealander, but he grew up in Melbourne's northern suburbs before enrolling at the University of Auckland after high school. Thorburn's mother is a Kiwi, so he had been a regular visitor to the country.

He studied economics and began his career as an economist before joining ASB Bank, Commonwealth Bank's Kiwi subsidiary, in 1986. He met his wife, Kathryn, in New Zealand, had his three children there (they are now 27, 26 and 22) and still regularly visits his parents, who moved to New Zealand when it was clear their son had built his life there. When asked whether he will eventually retire in Australia or New Zealand, he hesitates.

"Definitely one of the two," he laughs.

A question of faith

After stints working for Sir Ralph Norris at Commonwealth Bank and Gail Kelly at Westpac subsidiary St George Bank, Thorburn defected to NAB in 2005 as head of retail banking. When Cameron Clyne was promoted to NAB chief executive in 2008, Thorburn took his old job at BNZ.

It was the role that made him. With the guidance of the then BNZ chairman, the late John Waller, Thorburn learnt how to progress from managing part of a business to running an entire group.

"The six years I had in New Zealand I went from being a young, competent banker who had some leadership experience to running a whole bank and coming out the other end feeling much more rounded."

Thorburn watches the Tigers win the AFL grand final in 2017. *Supplied*

Thorburn is known for his strong Christian faith, but he emphasises that it is a "below the iceberg" part of his leadership style. He will talk about it when asked, but otherwise it simply guides some of the qualities he holds dear. These include empathy, care, listening, courage and accountability. "I think my faith gives me a view as how I should behave as a leader, how I should treat people."

But his faith also provides a window into what defines Thorburn the person, as opposed to Thorburn the chief executive.

“I love the bank, I love my work, I’m really committed to what the bank does – but it’s not who I am ... it doesn’t define me,” he says.

What defines him is his faith, which he says gives him an “unshakeable belief in who I am and how God sees me”, and his family: “My marriage, our children and my parents. I don’t think it matters [to them] whether I am the CEO of a bank or a bus conductor.”

Not that you can imagine Thorburn settling for being the bus conductor.

Endlessly restless and energetic – he inevitably jumps to his feet during meetings, and speaks at a rapid pace – he admits to being ambitious “for wanting us to succeed and win in the long term”.

“I’ve always just stepped into things and taken them on,” he says. “A leader must have ambition; the question is, is it for themselves or the people and company they work for?”

Despite the initial market surprise at Thorburn’s appointment – he was seen internally as a great “people person” rather than “super smart banker” – insiders say that former NAB chairman Michael Chaney and the bank’s board were keen to appoint an “outstanding communicator” like Thorburn to combat the growing threat of regulation and community backlash against the banks.

"I love the bank, I love my work, I'm really committed to what the bank does – but it's not who I am ... it doesn't define me," Thorburn says. *Simon Schluter*

Thorburn is expected to face some probing questions about the bank’s culture and lines of accountability if he appears, as expected, before the royal commission later this year.

As head of NAB’s retail bank between 2004 and 2008, Thorburn was personally involved with the bank’s Introducer Program – where non-bank employees were paid more than \$150 million to generate \$24 billion in NAB home loans. The lucrative program became the first notch on the royal commission’s belt this year, after staff blew the whistle on “cash bribes” paid to write loans based on fake documents to [hit targets and collect bonuses](#).

Thorburn remains a believer in incentives.

“There’s nothing wrong with financial incentives; it is if they become imbalanced and they become ‘the’ driver of success ... I do think they need to change but they shouldn’t be eliminated,” he says.

‘Dark side’ of leadership

Thorburn’s views are perhaps not surprising given the career banker has so far avoided the front-page stories that have besieged the Commonwealth Bank over its money-laundering

scandal, ANZ over its recent criminal cartel case and Westpac over the long-running rate-rigging case which the other banks settled.

Whether NAB and Thorburn can avoid a major fallout from the royal commission will be tested if the bank CEOs are examined later this year.

For now, it is clear his executive team is holding the line that the threat from burning platform number two – technological disruption – is a bigger risk to the bank.

In a low-growth environment, NAB profits will be under pressure for the next three years. *Paul Rovere*

The discussion leads to Thorburn opening up about the “dark side” of leadership and in one revealing moment he says the CEO role has taken a toll on his personal life and that he has few close or deep friendships.

“Time crowds out friendships,” he says. “I’ve got a few good friends, but not many.”

It was a point driven home when Thorburn [recently expressed](#) “sadness and grief” after discovering his former long-time chief of staff, Rosemary Rogers, with whom he admits he had a longstanding friendship, was allegedly involved in a multimillion-dollar fraud against the bank.

He is hesitant to nominate mentors but says he tries to meet as many leaders as he can, to soak up their advice and insights.

The day before he meets *BOSS magazine*, Thorburn has former Netflix human resources boss Patty McCord in to talk to NAB’s senior leaders team. Thorburn also recently met ASIC chairman James Shipton, who put him on to the John Kay book *Other People’s Money: Masters of the Universe or Servants of the People?*

SEEK chief executive Andrew Bassat – who told *BOSS* [late last year](#) that after Amazon wipes out the retail sector, banking will be next – has also been in to talk with the NAB team.

The online classifieds giant is one of Thorburn’s personal customers and Bassat says Thorburn has struck him as “very approachable, very thorough and very diligent.

“I do get a sense of a guy who loves to learn,” Bassat says, adding that he doesn’t envy the difficult task facing bank CEOs right now.

Strategy ‘is delivering’

Thorburn also caught up recently with Piyush Gupta, the chief executive of DBS Group and a former Citigroup executive. One issue the pair discussed was the two phases of Gupta’s reign at DBS, where he had to turn around the business before focusing on growth.

Does Thorburn feel his time at NAB has been similarly marked by two distinct phases?

“I hesitate to describe it like that because it might sound as though it’s fixed,” he says. “But I think there was a bit where we did a whole lot of things to get the bank back to its core and stabilise it, and now we’ve gone on an acceleration of a plan with more investment to get ready for the future.”

When Thorburn took the bank’s top job, CLSA’s veteran banking analyst Brian Johnson, who had been notoriously bearish on NAB during the Clyne reign, set out a list of 10 tasks for the new boss, including cleaning up the mess in NAB’s British property loan book and exiting the Clydesdale Bank it owned there, refreshing the management team and focusing on NAB’s core business-banking franchise. Most of those items were ticked off before Thorburn unveiled his strategy last November – and NAB investors were impressed.

Now he needs to win over the market again.

He insists his new strategy is delivering. He points to the results for the six months to March 31, which he released in May: NAB retired 19 products and consolidated 60, migrated nine IT applications to the cloud, and slashed more than 1000 jobs.

But analysts were disappointed with NAB’s cash profit for the half and its revenue growth.

“We’ve put some proof points down and next half we’ll have to do some more,” Thorburn says. “I think you’ve just got to keep delivering steady growth and not lose your nerve. Because what we are doing is investing in the bank.”

Macquarie’s Victor German sees scope for NAB’s earnings to lift in the 2019 and 2020 financial years, provided it can keep costs down and capture the benefits of its push to grab more of the business banking market.

“Ultimately, NAB’s success should become evident beyond 2020 if cost performance can be maintained or improved in subsequent years and management positions the bank to capture revenue opportunities,” German says.

“While this strategy comes with an execution risk, we continue to see longer-term value in NAB.”

Not done yet

That assessment raises an obvious question: could the completion of Thorburn’s big investment plan signal the end of his reign at the bank?

Thorburn says he has given a lot of thought to the succession plans of the executives on the two rungs beneath him.

But he insists his own retirement is the furthest thing from his mind.

“I really struggle with this sort of question because I don’t know when that’s going to be and I don’t want to think like that,” he says. “I think once you start to talk about ‘my time might come’ there is a risk that people start to position for that for themselves.”

Thorburn’s long-time chairman Ken Henry has been characteristically blunt with his CEO about how the end might come.

“He knows, although I’ve never said it to him like this before, there will come a time when I have to throw him under a bus,” Henry said at a business lunch [last year](#).

“He has to trust me that when I am doing that, I am actually doing that in the best interests of the company. Even if he might regard it as being unfair to him personally.”

Mike Baird – the star recruit seen as a possible successor to Thorburn, along with NAB’s chief operating officer Anthony Cahill – is adamant his chief executive isn’t going anywhere. “I think these times are made for a leader such as Andrew,” Baird says.

To restore trust with the community, Baird argues, will require someone who is prepared to be upfront with the community. To drive change within the bank will require a leader who can explain the case for change, not spin it.

“People want authenticity, they want reality,” he says.

“I think in the next few years you are going to see Andrew become a very significant leader not just in banking, but in the community.”