



EMBRACING TECHNOLOGY IN FINANCIAL SERVICES

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SEASON 2, EPISODE 1 TRANSCRIPT

Tackling the big questions facing global economies and reflecting on the impacts for Australia

HOST: Tim Broome, Technology Advisory Practice Lead, Financial Services, Accenture Australia and New Zealand

GUEST: Simon Whitehouse, Senior Managing Director, Financial Services, Growth & Strategy, Accenture

Tim: What did the chemist say to the physicist? No, it's not the start of a bad joke, but the beginning of a really great conversation. Join me and my guest, Simon Whitehouse, as we discuss global economic trends and the impact on Australia's financial services industry.

Presenter: Welcome to Embracing Technology in Financial Services, a podcast brought to you by Accenture where leading experts share insights on business issues facing Australia's financial services industry and beyond. Now here's your host, Tim Broome.

Tim: Hello, and welcome to the new season of Embracing Technology in Financial Services. I'm your host Tim Broome, Technology Advisory Practice Lead for Financial Services at Accenture, Australia and New Zealand. I'm really excited to bring you this new season. We'll be exploring a range of topics including innovation, disruption, winning customer trust and loyalty, workforce trends, the economy, and new technologies with some leading experts in financial services. We'll have our finger on the pulse discussing all the latest developments and trends as they happen. And to kick things off, I'm delighted to be joined by Simon Whitehouse, who is the Global Growth Strategy Lead at Accenture and also our Global Blockchain Lead. He also drives investments and acquisitions. Simon, you sound like a very, very busy man. How are you?

Simon: I'm massively well, thank you. And all the better for being here in Australia.

Tim: So, Australia is not home.

Simon: Australia is not home. London, as I cunningly disguise in my voice, is home. But I have a soft spot for Australia because I lived here for a couple of years way back as a manager in the firm.

Tim: Oh, excellent.

Simon: I've got a brother in Sydney and so I've got all sorts of connections, actually.

Tim: So which route did you take down?

Simon: Singapore.

Tim: Right. So, I'm a big fan of the Perth route and if you've not taken it, it's actually a really, really good route. It's a bit faster. There's only a really small cut-over, which is quite nice.

Simon: I'm going to try it. I've never been to Perth, but I philosophically hate the idea of a short sector at the end of a really long one. So, I'm happy to do it the other way around.

Tim: Well, the next one, so Qantas is talking about direct now.

Simon: I know, it's crazy times.

Tim: 2023, I think, but yeah, that'd be great. But we're not here to talk about flight routes. This is quite a change from the usual conversation. It's not that often we get somebody who has a really truly global perspective. So, look, firstly, thanks for taking the time. And as we mentioned, I've seen your calendar, I know how super busy you are. But having somebody with a global perspective, what I wanted to talk about this week is the events that we see globally. How does that boil down to what happens in Australia? So, if we start off with: what are the global forces that you see affecting the financial services industry?

Simon: It's interesting. We do live in a time of great exciting change, to use the great Chinese euphemism, which is good for us because change is what drives us. But if you look at the macro forces on our business, I would say the geopolitical factors are huge. So, China's clearly a big part of the story.

Tim: Yep, absolutely.

Simon: And the way the U.S. and China interact is going to be another big force. Europe's in a depressed state. Technically depressed. An extraordinary statistic is two-thirds of government debt is negative yield in Europe, across the whole thing.

Tim: Yeah, that's a big problem.

Simon: It's breathtaking. It's \$17 trillion worth of assets on negative yield these days. So, you've got a geopolitical factor and you've got sort of macro-economic forces that actually couple with deglobalisation and a general sense of putting up borders and putting up barriers. It is changing the landscape with no question at all.

Tim: And if we look at... you mentioned deglobalisation; if we wind back a little bit, why have we got to this position? Because for many, many years we were pushing, countries were getting more connected. The EU was expanding, everybody was trying to find ways to trade more simply with one another. And now it's almost as if the last three or four years, we've just completely swung the other direction. What do you think started to bring that in?

Simon: It is striking, isn't it? It's remarkable. I was reflecting the other day that my whole professional career, I've benefited from increasing connection and globalisation, and now it's reversing really rapidly. One person's view and, I must say, I trained as a physicist, so I'm very well placed to...

Tim: I trained as a chemist. So clearly got a finger on the pulse of this one.

Simon: Everyone listening to this. Oh, my goodness. Oh, my goodness. I'm so sorry for the listenership, but here's a physicist's view: I think the power source for this level of change is a really profound point about the gap between the haves and the have-nots in the world. And a perception that even within a country, let alone across countries, that some people are benefiting overly, and others are actually deeply, deeply losing. And that drives all sorts of forces that we see all around the world – and things like Brexit in my home country, heaven help us – but many other dynamics. Some of the conflicts in the Middle East and some of the factors and in domestic U.S., they're all actually, I think, traceable to the same root cause which is deep discontent, deep, deep sense that I can't flex the system I'm in using the current tools, therefore, I need to disrupt and force it to be more step changed rather than evolved.

Tim: Yep. Well, let me put the chemists' fear on this because when I thought back at what's happened – and going back to the UK, so if we think about Thatcher, she was one of the first politicians that even though she – probably look back and consider that she was quite towards the right – but she aggressively targeted the middle, and was one of the first politicians to really start to understand what is it that wins in an election, it's those swing voters is in the middle.

Simon: Yes.

Tim: And then Blair, he understood that very, very well. And then we... so, we got to this position where the right and the left is fighting more over the middle with the view that the extremes of their party are safe, they don't need to worry about those. As long as they get the middle, they've won.

Simon: Yep.

Tim: Now over time, everybody's realised that, well actually, I don't see a whole lot of difference between the two main parties and those on the extremes are starting to feel that they're not being... their voices aren't heard, which is... now they've got a voice because we've got politicians who are actively seeking out their support. And that's then, with the view that the distribution of wealth isn't ideal anymore, we're now in a position where the voices that were at the extremes and were kind of under control have got an awful lot of power now.

Simon: I agree with that.

Tim: And that has now caused the... then what we talk about with the... or the pullback of globalisation, because it's appealing to those who aren't really part of that broader system.

Simon: That's exactly right. And also, I think technology and social media has got a very, very interesting dynamic in this.

Tim: Yes.

Simon: And is potentially incredibly powerful and intrinsically a good thing, from my point of view at least. But right now, the noisy extremist is able to make much more noise than previously would have been the case. And therefore, grabs mindshare and attention.

Tim: So, if we look back on Europe... and a lot of what happens in Australia, I think it tends to percolate down from the Northern hemisphere down to the Southern hemisphere. So, a lot of what we see in Europe, gradually – and the U.S. – will work its way down here. And you've mentioned depressed government bonds, but if, also, if we look at the banks across Europe, they've also been in fairly sticky situations. So, what's happening around the banking system?

Simon: Yeah, I was actually at a breakfast meeting here in Melbourne earlier this morning and talking about these forces on the banks, and they're remarkably tied into, you know, "awkward states", I'd say. You know, they've got a global economic or a local economic environment that's actually not conducive to growth. They've got a big part of their profits, traditionally would have come from interest rates, which are now historically low. So, there's no margin in that. They've got intense regulation and frankly some of it is self-inflicted through misdemeanours. But some of it, quite honestly, is a society at large trying to keep systemically important institutions in control, therefore putting obligations on them.

Tim: Yes.

Simon: They've got tech disruption and fintechs and they've got a business model that's probably no longer strategically fit for purpose i.e. a vertically integrated business that manufactures the same product, serves its own products, has its own channels and has its own brand and it is all integrated in a rather tidy one size fits all, and that's unsustainable. So, trying to work your way out of the current conundrum while serving shareholders, serving governments and stakeholders, serving the court of public opinion – which is not very friendly – and still being viable enough to be able to invest in the wise pivot sense...

Tim: Yep.

Simon: To build the new, is really quite an interesting conundrum, I think.

Tim: And the leavers that they've got to play with are getting harder to move.

Simon: Yes, yes, that's exactly right. And increasingly, I think a lot of the leadership teams of our big banking clients, and the big banking stakeholders, are very thoughtful about the sort of social obligations they have and about the degrees of freedom they've got in terms of being good stewards in society as opposed to just being moneymaking machines.

Tim: Yes. So, we were talking about return on equity yesterday. I was looking at... so, DBS has announced 18,000 head count reduction. They are still, I think, are just coming out of negative ROE. Lloyds is positive now but was in a negative position. That is not a great position for a business to be in.

Simon: That's right. And there's a popular misunderstanding, I think and, perhaps, wantonly in some senses, that because the headline profitability of banks or profit-making of banks is striking. Billions of dollars and all the rest of it. That in some way they are gouging society. Now, I'm not sitting here saying that it's flawless by any means. I think there's a bunch of lessons that should never have had to be learned and they're now being learned. But the bottom line is when you're running a business that has a lot of capital associated with it and a lot of safety nets associated with that capital, so that you and I will always get our money back if something goes wrong. In that context, when you look, as you say, at the return on equity, as opposed to profit, and you compare that to the cost of equity, the vast majority of banks and financial services, generally actually around the world, are value destroying every day they turn up to work. So that's not a great place to be in.

Tim: That's not an ideal scenario.

Simon: This is gravity defying stuff.

Tim: So, we've talked a fair bit about Europe. Is the U.S. radically different or in a similar position?

Simon: It's interesting, actually. It's an interesting question because the U.S. actually... in fact, I'd say there are three different regional sort of characteristics actually in financial services, and I'm probably leaning heavily towards banks, but actually it's not just banks you could put in this framework. The U.S., to go there specifically, has had a very favourable government regime and quite a favourable domestic environment in terms of growth.

Tim: Yes.

Simon: So lower taxes and intent from the legislation or the legislature to reduce a regulatory burden, and a domestic economy that's firing reasonably well. So actually, until quite recently, the banks in the U.S. have actually had record profits. Now, I said it until recently because part of that, as I mentioned earlier, is linked to interest rates. Banks intrinsically need interest rates to be at least reasonably robust... you know, material a single digit, to be able to make their margin. As you know, I'm sure, is that the U.S. trend now is for interest rates to reduce.

Tim: Heading in the other direction.

Simon: Indeed. So, all of a sudden, I think for the first time in a little while, the U.S. is just gently being a little bit more cautious. Whereas in Europe we've got, as I said, a depressed environment, technically depressed, strikingly so. Germany, the engine of Europe, trades with the UK, trades with China, trades all over the world with manufacturing, and all of that is severely hampered by a variety of factors right now. France has always been France and we love them from a British point of view, always have loved them. But the combination of Britain, France and Germany, none of it's thriving at the moment...

Tim: Indeed.

Simon: That means the rest of Europe really hurts. And there's an overhang in Southern Europe of a huge debt crisis. So that cost is intrinsically a handbrake in the economy. So, banks are, as Alan McIntyre says, "Banks are derivative industry," They're a function of the economies in which they're serving. And if the economies are in really, really sad states, then the banks are hurt.

Tim: It's reflected in the banks.

Simon: Indeed. And then you come over to this part of the world. In particular – not necessarily Australia specifically, but certainly Asia – and you look at the relatively clean sheet in terms of limited legacy and opportunities to really leapfrog with latest technologies in the way financial services works. I was in Bangkok recently: it's striking how vibrant financial services is there. But look at Vietnam, look at China, look at Tencent and Alipay having two-thirds of all payments across Asia, as a business being created in the last five years or so?

Tim: It's incredible, isn't it?

Simon: It's stunning. And in this strange way, dare I say it, and I realise this might invoke wrath, but I'll say it anyway.

Tim: Have a go.

Simon: Australia's behaving in a rather European way, I'm sad to say, in this context.

Tim: Look, it is quite a European nation.

Simon: Yes.

Tim: I've been here, what now? Twelve years. It's certainly changing. As a country, it's changed a fair bit in the time I've been here. And even if you look at... the cities are changing, the demographics in the cities are changing. If you were here ten years ago and come in here in ten years time, look at the skyscrapers in Melbourne, the whole of Melbourne is... there's a huge construction boom going on.

Simon: Yes.

Tim: So, I think Australia is going through a change, but at this point I agree, it's a very European-influenced nation.

Simon: I can add to that. I had a very, actually very enjoyable conversation but it wasn't what I was expecting, with the chap driving the cab in from the airport yesterday morning...

Tim: Okay.

Simon: Who'd moved here from Iraq with his three children and his wife in 2004 as a refugee, essentially.

Tim: Wow.

Simon: And he couldn't have been a better advert for Australia. He was definitely delighted the way the country had helped him and given him opportunity. It was quite striking, actually.

Tim: And Australia is, through the bulk of the last probably fifteen years, Australia's had pretty good growth. And even through the global financial crisis, Australia did... there was a bit of a blip, but there wasn't a whole lot more than that.

Simon: That's very true.

Tim: But now the trend is, in the last couple of years, we've seen a fairly consistent downward trend.

Simon: Yep.

Tim: And, if I, reflect back on some of the topics we mentioned from the global perspective, Australia is a big exporter. I was just checking, iron and coal are the number one and number two¹.

Simon: Yep.

Tim: Now, when the U.S. and China disagree with each other, and a Chinese manufacturer decides he or she are going to reduce their output because they're not sure where it's going...

Simon: Yep.

Tim: The flow on effect is that Australia doesn't have a market for the stuff they dig out the ground. And as a core part of our economy, that's a bit of a challenge.

Simon: Yep, that's right.

Tim: And it's not something that you can really control in Australia.

¹ [Australia's Top 25 Exports, Goods and Services, Department of Foreign Affairs and Trade, Produced by the Statistics Section of the Office of Economic Analysis, Investment and Economic Division.](#)

Simon: It's very, very true, and in a perverse way, having had regular knocks every eight to ten years or so, means your society's sort of attuned to the fact there'll be a knock every now and again and there'll be a recovery. Whereas if Australia – I can't remember the exact number of quarters of continuous positive growth, but it's extraordinary. It's something of the order of twenty plus years, I think.

Tim: Yes, it's around that area.

Simon: And that's difficult because in living memory, for the vast majority of people, they've never had a recession, so it's very hard to anticipate how that'll be received if it happens. And heaven help us, that it hopefully won't. But the advantage of the great resources and the minerals sort of engine for Australia, have definitely enabled all sorts of very positive things, including things like personal wealth accumulation, and domestic property pricing rising, and everything else. So, an adjustment to that could be very, very frightening.

Tim: So, what do you think happens next? If Australia looks like it's going through... starting to tip, Europe's already in the depths, U.S. looks like it's wobbling, the rest of Asia looks pretty good. What do you see... what's going to happen over the next few years, do you think?

Simon: This is a hard question.

Tim: Indeed, sorry.

Simon: I think the answer was twenty-three, it was. There's a school of thought that says, the unbelievably torturous machinations we're going through in the UK with Brexit right now is actually democracy trying to find a new equilibrium. It's actually... this is a very half-full view by the way, I'm not sure I completely subscribe to it, but nevertheless... we're trying to find a way to configure our society to be more reflective of what's important...

Tim: Yep.

Simon: And find a new way forward. And arguably, that might ripple its way all the way across the... certainly the Westernised-type world. How will Australia generate wealth and prosperity in the future? I mean, trade's going to have to be a factor, undoubtedly. But internally, there's probably all sorts of questions associated with the skills agenda, and what Australia makes as opposed to what it serves.

Tim: What it has.

Simon: And what it has. Yeah, exactly. So, I'm using too many words to not answer your question actually, which is a common technique, so I'll stop.

Tim: Well, if we look at Australia, one of the interesting stats that I've seen in Australia is if you look at the [global innovation index](#). Australia ranks very, very high, like top ten, in terms of generation of ideas and it's improved, but was around the 70 mark with regards to conversion of ideas into value-generating solutions.

Simon: Hmm.

Tim: Now, that's not a great position. And if we look at countries like Israel that have really pushed themselves as an innovation economy...

Simon: Yep.

Tim: Australia needs to make that connection between its ability to generate things that could provide wealth value to not just Australia, but the world, and its ability to actually produce that.

Simon: Yep.

Tim: Now, whether that is driven by industry, whether that's driven by the government, I suspect it probably needs to be both, together. But that's the type of thing I think Australia needs to get its head around to really start to prosper in a changing world.

Simon: I completely agree. One of the things that comes into focus, though, when we're talking about something like that is the ability for ourselves as a society, but also as different parts of society, to operate on a sort of two horizon type model. And I do wonder... sorry, let me amplify that. We have to generate wealth today to be able to do what we need to do today, to live today.

Tim: Yes, yep.

Simon: But crucially, we have to be investing enough in wealth generation of the future, which in turn means we're able to make mistakes and go down dead ends as well as find brand new frontiers that will be the next generation of goodness. And I do wonder if our society, in general, has become so short-termist... it's the next quarterly results that are fundamental...

Tim: Yep, absolutely.

Simon: That actually we might have got ourselves into a bit of a dead end. So, I think to the Brexit machinations point a few minutes ago, is probably one of the things we're going to have to work through. And interestingly, in an environment again in Europe where we've got quantitative easing, negative interest rates and probably the next tranche of things are going to be tax reductions to try and stimulate people to invest and build the future. We may end up reverting to some really old Keynesian economics that say, guess what? We're going to go and build some seriously big infrastructure. We're going to invest in infrastructure with a name to having long-term payback. And I don't mean just physical infrastructure, I'm talking about digital infrastructure and skills. And I can see an emerging political conversation that sort of spark off this, that are more steward-like. They're more oriented to, "This won't pay back in my regime in charge, but it's the right thing to do and I will therefore lean in and do it."

Tim: And I think that's one of the challenges we have... our political systems are quite short-termist.

Simon: Yes.

Tim: Again, if we were reflect on somewhere like China, which has a huge long-term view...

Simon: Absolutely.

Tim: And is in it for the long game. The Australian election cycle is so short that you really don't have a whole lot of time to be planning for that long term.

Simon: Yep.

Tim: It's get in, talk about what the last lot did, a year of doing what you want to do, then give money back...

Simon: Yes.



Tim: To try and be in for the next cycle. And that really isn't time for long term. And the national broadband network is an example of, we swung different ways depending on which party was in. So, a lot of money was spent on just figuring out who was actually going to deploy this.

Simon: Yep.

Tim: If we look at some of the physical infrastructure solutions that are out there, then there's disagreements between the parties on what the right solution is. So, we're really struggling here with that long-term view and I completely agree that that's needed in order for us really to prosper long term, but it's a fundamental change to the whole way in which our systems operate.

Simon: It is. In this conversation, I think you can start to assemble a few ideas that sort of drive change, and they hopefully can drive change in a constructive, evolving way without need for revolution or war or traditional solutions frankly, to this sort of discontinuity.

Tim: Yeah.

Simon: But you've got the have, have-not divide...

Tim: Yep.

Simon: You've got the need to go long term as opposed to short term, and you've got the need to... maybe allied to that second point, invest in a manner that causes people in society to feel reasonably secure and comfortable such that they don't need to disrupt the system and push wheelbarrows over as a vehicle for change.

Tim: Yep.

Simon: So, it all adds up, I think, to the same point, or it relates to, which is, we probably need to evolve our systems and we need to... as in political systems, government systems...

Tim: Yes, yep.

Simon: And we probably need, as citizens, to be a little bit more demanding and thoughtful about this, and resist the urge to be sensationalist or have the cheap thrill of the cheeky social media post, but rather think about our children or think about our society on... as a twenty year horizon or something, to try and work out how we deal with it.

Tim: Well, as a chemist and a physicist, I think we've just about put the world to rights. We've, if not solved the problems, we've at least got the directions that we should be heading in. Simon, it's been excellent talking to you. Really enjoyed this time. It's slightly different from our usual podcast, but really enjoyed this. Thanks for your time. Really love to speak to you again if you're ever back down here.

Simon: Great, great, great. All the best for the lucky country.

Tim: Thank you very much.

Tim: You can find other episodes on the Accenture Vision app, visiting [accenture.com/embracingtech](https://www.accenture.com/embracingtech). If you want to find out any more about my chat with Simon Whitehouse today, you can reach out to me, Tim Broome on LinkedIn, or visit the Accenture website. We'd love to hear from you and make you part of the conversation, share your feedback, and get you involved. Thank you very much.



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