

Institute for
High Performance

Bendigo and Adelaide Bank: Co-creating banking solutions with local communities

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Case Study

A large, close-up photograph of two hands, one from the top right and one from the bottom left, holding a cityscape. The hands are positioned as if they are holding a small, glowing globe or a similar object. The cityscape in the background features the Sydney Opera House on the left and a dense cluster of skyscrapers on the right, all under a blue sky with light clouds. The water of the harbor is visible at the bottom. The overall lighting is warm, suggesting a sunset or sunrise.

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Companies everywhere are under pressure to control costs while continuing to explore new opportunities in high-growth markets. Yet testing new high-growth markets is expensive and often carries a significant risk of substantial losses. Bendigo and Adelaide Bank's Community Bank initiative illustrates how some companies are mitigating the risks of exploring new markets while setting the foundation for future growth. The key: Working with local communities to "co-create" new solutions.

Impact of the inclusive business initiative

In the 1990s, senior leaders at Bendigo Bank recognized that one of the main reasons for the shrinking population in rural and suburban Australia was the changing economic makeup in those areas.

At the time, those rural regions were unable to attract capital investments in areas such as infrastructure, healthcare, financial services and other employment-creation avenues. As a result, the central offices of many regionally based community services, including railway, electricity and water infrastructure operations, were relocating to city hubs.

Predictably, employment opportunities in the outlying areas began drying up, and income levels started dropping. An increasing number of people from these areas started migrating to urban areas to find jobs and employment. Local banks started curbing their operations due to the lack of sustainable business or because they were seeking higher-profit-generating initiatives elsewhere. Many communities were left without local banking services, or even ATMs. In fact, more than 2,000 bank branches shut down between 1993 and 2000, almost a 30 percent reduction in branch numbers.

For Bendigo, a bank much smaller than its peers at that time, this presented an opportunity to grow rapidly by appealing to underserved customers. The challenge was that building and operating new bank branches was likely to be prohibitively expensive.

It was clear that the traditional bank-branch model was failing in the Australian market. A new model was essential for smaller players like Bendigo that could not afford the capital outlay required for extensive branch network expansion.

Accordingly, Bendigo's leaders decided to try a new approach—an innovative franchise model, whereby the bank's branches would be owned by hundreds of local people within each community. In a more traditional franchise model, one or two major investors would own the branch. With Bendigo's model, a mix of residents, local business proprietors, educators, local government representatives and farmers would pool their resources to fund new branches. The core concept of this business model is straightforward—if individuals have part ownership in a local community enterprise, and they see that it can create benefits for the local community, then they will be more inclined to support that business.

To implement this new approach, Bendigo formed the Community Bank model in late 1997, and in 1998 created a small dedicated internal team to support the

model's growth across Australia. Besides providing quality banking services, this group ensures that Community Bank branches deliver additional benefits to local communities by providing employment opportunities for local people, locally sourced capital for loans, a local option for community-based investors and a source of financing for important community projects. The initiative reinvests 80 percent of bank branches' profits in the community; the remaining 20 percent is distributed to shareholders as dividends.

The Community Bank has grown significantly over its 15-year existence. By 2012, there were 289 branches across Australia, with more than 900,000 accounts served by about 1,400 staff and 1,800 volunteer directors. The program manages customer accounts valued at more than A\$21.28 billion (US\$22 billion). Most important, more than A\$75.5 million (US\$79 million) in branch profits has been returned to community projects, and A\$19.93 million (US\$21 million) has been paid in dividends to more than 70,000 local shareholders.¹ Projects are considerably varied and include town function centers, sports facilities, medical centers, and educational scholarships.



More recently, Bendigo has used the tenets of the Community Bank model to develop and launch its Community Sector Banking program, which is Australia's only banking service specifically designed for the non-profit sector. The initiative has supported affordable housing projects through new partnerships with non-profit organizations, as well as by providing non-profit organizations with tailored banking services. Moreover, the Community Sector Banking initiative reinvests a large amount of its profits back into local communities. The reinvested profits have already provided financing capital for the construction of more than 1,100 homes.

As a result of these programs, Bendigo and Adelaide Bank has won high praise and loyalty from customers, and has consistently ranked among the best banks in Australia in terms of customer satisfaction.

Barriers to scale

Skepticism about profitability: At the onset, the Community Banking Group project team faced significant skepticism. Individuals and businesses in target communities worried that the model couldn't gain enough support to succeed, and were reluctant to take the risk. Their fears were encouraged by competitors, which discounted the model's ability to be effective and sustainable, particularly in regional and rural communities.

Absence of relevant skills among local populations: The local community had limited knowledge about the banking sector. And in most cases, few members of the targeted communities had governance experience as directors of public companies.



Strategies for success

Securing buy-in from top management through innovative thinking and cautious execution: Although Bendigo's board has always recognized the non-financial merits of the Community Banking Group initiative, it was also imperative that the new business model generate acceptable returns for the bank in a reasonable period of time. It was also important for the bank to leverage existing infrastructure to support the growing Community Bank network—but at the same time, the bank wanted to differentiate the model clearly and limit the risks the new initiative posed to its core business.

To accomplish these goals, the team took care to ensure that Community Bank was not integrated into Bendigo's core business operations; the project was launched as a standalone business unit run by a special team. The team also convinced Bendigo's top management to provide resources from a pool of funding that was separate from the company's traditional banking operations. Doing so helped to ensure that the bank would provide an appropriate level of support for the new initiative without taking focus away from its core business.

At first, the project team conserved its resources and limited exposure to risk by launching small pilot initiatives to test the model's viability, and by committing to iterate and adjust their approach as needed. Then, as the performance of the first branch began to exceed early expectations, they made the decision to expand the network gradually.

Continual alignment of the initiative's organizational structure with Bendigo's business and operating model: Once the Community Bank model had developed into a mature and significant network delivering credible outcomes for both communities and the bank, the company began to align its organizational structure with the company's core operating model. Community Bank, by this time, was a key feature of the bank's business strategy. Accordingly, the initiative needed to draw on the broader bank's capabilities and scale by transferring the responsibilities of the special project to key operating units. Given that the model was clearly a strong feature of the bank's future, it was also important to create a business structure for it that enabled larger staff involvement and engagement.



Designing and executing win-win solutions: Community Bank's franchise model has helped unite and engage rural and low-income communities. By involving local people as franchisees and including the broader community as employees and customers, Bendigo has been able to develop a commercial model that has generated local profit, regenerated employment and instilled a can-do attitude in many communities. The board of each Community Bank project is made up of local volunteers, while the staff employed to work at each branch are members of the local community.

By adopting a franchise model, the bank has been able to shift its fixed distribution costs into variable costs. Moreover, the bank is now in a position to deploy locally originated capital to fund physical expansion and improve its local brand positioning.

"Community Bank was founded on the belief that successful customers and successful communities create a successful bank—in that order. That last phrase is the key, because it returns us to the philosophy on which banking itself was founded—that the bank feeds into prosperity, not off it. Simply put, you can't run a successful company in a poor community, so it makes sense to invest in helping to create a wealthier, more cohesive and inclusive community. Fourteen years into the model, as early branches reach maturity, our community partners and the bank itself are seeing clear evidence of success."

—Russell Jenkins, Executive, Customer & Community, Bendigo and Adelaide Bank

Notes:

1. http://www.bendigobank.com.au/public/community_bank/about_community_bank.asp
2. Bendigo Community Bank Model Investor Presentation, July 2011
3. Source: Bendigo Corporate Website, Community Bank Model Flyer, 2011

Company information

The merger between Bendigo Bank and Adelaide Bank in November 2007 created the sixth-largest domestic bank in Australia. Bendigo and Adelaide Bank has assets of over A\$55 billion (US\$56 billion) and market capitalization of A\$2.9 billion (US\$2.95 billion).² The merged entity provides premium services in retail banking, wholesale banking and wealth management and is represented in all the states and territories of Australia, with nearly 900 outlets across the country.³

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