



# Putting Members First

From its humble beginnings in 1975 to having 43 branches across the country and more than 90,000 members, Defence Bank is one of Australia's largest member-owned banks.

Images by Estelle Judah Photography

Jon Linehan, CEO of Defence Bank, has a strong background in financial services, previously working as CEO of a super fund as well as a general manager and a funds manager. "I was CEO of HOSTPLUS for five years, where I tripled it in size from \$400 million to \$1.2 billion funds under management. In a similar vein, I was general manager of Australian Unity Funds Management where I oversaw its greatest period of organic growth. When I first went there, its funds intake was \$20 million per annum; when I left, it was \$480 million per annum and had won a range of industry awards. I joined Defence Bank, which was then a credit union called Defcredit, seven years ago. Since then, we've been the fastest-growing mutual, tripling in size through organic growth."

Australian Unity Funds Management was an important stepping stone before taking the CEO role at Defence Bank. "I had the privilege of working with Ian Ferris, who was then Managing Director of the group. Although I had spent time as CEO of HOSTPLUS, working at Australian Unity Funds Management really opened me up to a more diverse corporate sector, and how it operates. It was Ian, one of the

heavyweights of the Australian funds management industry, who went out of his way to mentor me.

"Ian's a generous person. In that I mean he gives willingly of this time and intellectual capital, teaching me about the corporate linkages, disciplines required, the importance of business planning. Considering my next move was to a bank CEO role, in hindsight, what he taught me has been invaluable."

After joining Defence Bank in 2006, Jon had two years to familiarise himself with the organisation before a major challenge forced the company to reassess its operations. "Our first challenge was the Global Financial Crisis of 2008 when we had just started a period of rapid expansion, and our main funding partner withdrew their lines of funding with no notice, which we read about in the newspaper. We had to swing the whole organisation 180 degrees around to focus on deposits and new sources of funding. We really restructured the whole organisation.

"What did this mean in practical terms? It meant we could no longer rely on securitisation for our funding and had to set out to

diversify where we raised our capital in four ways. Firstly, we placed greater emphasis on the traditional way that banks raise funds—increasing deposits. Secondly, superannuation became an important source of funding. Thirdly, we employed business development managers to tap into local governments and, fourth, we used a broker network to tap that source of funds. At the same time we continued to achieve record levels of lending.

"From our perspective, diversifying our funding has gone a long way to insulate the bank from any future shocks to the financial system. It's also secured the cost of our funding and that's obviously a key benefit we can pass on to our members.

With the finance industry stepping into volatile times, Jon led the company's transition from a credit union to a member-owned bank. "It was strategically our decision to become a bank, and this involved a massive cultural change from the board, management, and staff to our members, who are our shareholders. We wanted to keep our customer focus, as they were our shareholders, but introduce a far more commercial and diverse focus. We received 98-per-cent approval from our members to >



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As part of the company’s restructure, Jon aimed to engrain the notion of innovation into Defence Bank. “We believe structure and silos are huge innovation killers, so we have a remarkably flat structure and we focus on outcomes. Teams are formed for specific outcomes based on their expertise, and, once they’re achieved, our resources are allocated to the next task. I often say that one of my most important roles as CEO is to listen. I often tell others that I know what I know, but I don’t know what other people know, so I spend the majority of my time at manager meetings actually listening.”

Through innovation, Defence Bank has launched several new products and initiatives to open new market sectors and demonstrate its value to clients. “Over the years, we’ve become unique as a bank because we focus on the direct funding of

our growth by superannuation. Our direct superannuation funding is now equivalent to our retail deposits, and we’ve expanded our customer base into whole new areas and segments, which reflects my broader background in super as well.”

Last year, Defence Bank trialed the first video call centre in Australian financial services. This service means anyone, whether they’re a longstanding customer or simply shopping around, can speak face-to-face with a Defence Bank consultant just by using a PC with a webcam and microphone. This is a convenient way for people to discuss home loans, personal loans, and credit card applications. “It’s to service our members directly via the medium they use most, which is now the norm, which is PCs. And we’re planning to extend it out to iPhones and iPads once testing is completed.”

Technology is driving the innovative changes Defence Bank

has incorporated into its service delivery. “Three years ago, we rolled out our video technology to our branches so we could provide specialty advice across the network. We launched our first automated service branch in 2013, and more than 80 per cent of our member transactions are now online and via mobile, so we think the future of banking is in service hubs based in branches where transactions are automated and advice is provided through videos. Our focus is on omnichannels, where the customer selects the medium for engagement and we provide our operations to suit their needs.”

The key element in Defence Bank’s ongoing success is its people and the support it offers to staff. “In terms of our people, like most employees, they want the security of a growing organisation and a feeling that they are valued on a worthwhile endeavour. Our engagement scores, which have risen each year, are now at 84 per cent, which is exceptional.

“We continually change the role and scope of our staff depending on our needs, so we provide an extraordinary level of support. Currently, around 40 per cent of our staff are pursuing a diploma-level course, and almost all are engaged in some form of training and development. All of our employees are informed in detail about our business and our objectives. Everyone’s role is clearly explained and understood, and they are measurable and accountable. Our culture is vital and we monitor it continuously.”

Defence Bank values its relationships with suppliers, working closely with many key partners to provide the best possible service and advice to all its customers. “Our relationship with our suppliers is pivotal. We are very much a collaborative organisation. We see success as mutual. We have strong relationships with our suppliers, and we certainly provide input to them. However, the major ones

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come to us in terms of ideas and we assist them in developing products for ourselves, which they are able to utilise in their own right. And we are seen among our suppliers as one of the most innovative organisations they deal with, so we see it very much as a partnership.

“There is no better example of this than the relationship we have forged with Western Union Business Solutions, a division of the Western Union Company, which allows Defence Bank to

provide an online international payment service directly to customers for the first time. Currently the service offers payments in more than 40 currencies, a number that is expected to grow to more than 130 currencies, enabling Defence Bank to increase its competitiveness in the Australian market.

“We’ve always looked to take an innovative approach to customer service. Through this new facility, the first in the world for Western Union, it is now more convenient >

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for our customers to use Defence Bank's internet banking service to reliably and conveniently send money overseas to more than 200 countries and territories."

While Defence Bank focuses on economic outcomes, it also promotes the idea of a moral compass by contributing extensively to the community, particularly the Australian Defence Force [ADF]. "We believe that a sense of pride is important in everything that we do. In that, we run a dual view of the world; it's about a moral compass as well as the economic performance of the organisation. People really just want a role in a dynamic, worthwhile organisation where they're listened to and feel secure. And the reality is that people want to contribute; people come to

work because they want to do a good job and they want to make the organisation better. So the question is: How do we actually utilise that drive?"

Defence Bank remains consistently busy sponsoring major sporting events, community events, and family activities right across Australia. The bank also has various foundations to help the wounded, injured, and ill current and ex-serving ADF personnel and their families. "We set up a foundation last year that is focused on assisting injured ADF personnel, and we've just launched two programs for post-traumatic stress disorder, which we're funding. The staff are all part of this program in the sense that they raise money through our branches.

"As far our tradition goes, we were the major sponsor of what was called Defence Special Needs Support Group, which cared for special-needs children in the ADF,

but we see the major role going forward as assisting ADF personnel coming back from deployment. We expect all of our staff to participate, which they do. And because a majority of our branches are actually on Australian Defence Force bases, we have a high level of engagement at the branch level as well."

Jon sees a bright future for Defence Bank as the company continues to innovate and remain customer-centric. "We will continue to focus on growth for efficiency reasons, and because culturally it is important for an organisation to keep growing—it keeps the organisation dynamic. That growth is supported by profitability because we are self-funding for our own capital. Innovation will keep driving us. Our growth rates have been extraordinarily high over the past six or seven years and we see that continuing. We're very optimistic about our future." •

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