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**LP**

GAIL Kelly's $100m scholarship initiative has stirred talk that the Westpac chief is on her last lap.

That's eight zeros or, for those with an eye to history, more than 8 per cent of an emergency $1.2 billion capital raising in 1992 that pulled Westpac back from the brink.

**TD**

Chief executive Gail Kelly's announcement of Australia's most significant act of corporate philanthropy was a tribute to the value of lessons learned: the bank was giving away an amount of money that, 22 years ago, would have made a healthy contribution towards saving it.

With Westpac still three years shy of its 200th birthday, the scholarship initiative inevitably aroused speculation that Kelly is now on her last lap, with an announcement about a handover to Australian Financial Services boss Brian Hartzer considered likely before the end of the year.

Not surprisingly, Kelly would not have a bar of it.

She said on Wednesday that she had a renewed appreciation of the privilege of leading Westpac, and the responsibility she had to "hand over the baton in due course at the right time to the future CEO".

"I don't know when that will be, but I'm really loving what I'm doing and I am so proud of this wonderful institution," she said.

History accompanied Kelly to The Domain on the edge of Sydney's central business district.

Among the Westpac alumni was her predecessor David Morgan, Bob White, the bank's chief executive from 1977 to 1987, ex-chairman John Uhrig and former chief executive Frank Conroy, who presided over the 1992 capital raising and its astonishing $880m shortfall, after announcing a then-record interim loss of $2.3bn. Thank goodness he had underwritten the rights issue, Conroy would be forgiven for thinking.

But of course, the rights issue allowed Kerry Packer and his ferocious lieutenant Al "Chainsaw" Dunlap to swoop on the wounded bank, picking up a strategic 10 per cent stake. Not long after, all hell broke loose.

Its history, as you would expect from an institution that has ridden the nation's booms and busts, has been volatile — the events of the early 90s are not isolated. In April 1817, Westpac was formed as the Bank of NSW under a charter of incorporation provided by governor Lachlan Macquarie.

In 1821, the bank suffered a serious loss after it discovered the chief cashier had stolen half the subscribed capital, none of which was ever recovered.

By 1851, when the gold rush began, the loss had been well and truly shrugged off, enabling the company to start a serious expansion phase. It grew from a single office in Sydney to a network of 37 branches by 1861.

After struggling through the Great Depression, helped by a bold initiative from general manager Alfred Davidson to adjust the exchange rate, Westpac fatefully geared up in the 1980s for another period of rapid expansion. With its domestic franchise under attack from a rush of new foreign entrants, Westpac developed delusions of grandeur, rolling out a strategy to become Australia's global bank. It opened European headquarters in London, an Asian head office in Hong Kong, and branches in New York, Houston, San Francisco and elsewhere.

The bank also owned the nation's largest finance company, AGC, and had two investment banks — Partnership Pacific and Bill Acceptance. When the stockmarket crashed in 1987, there was a huge build-up in liquidity and a flight to safety, which in turn unleashed a property boom. Westpac's assets grew by 50 per cent in the space of two years, before the Labor administration lifted interest rates and ushered in Paul Keating's "recession we had to have".

The fallout in the property market was catastrophic, with Conroy recalling this week that half the bank's problem loans were earning no income.

Packer's moment arrived with the effective failure of Westpac's deeply discounted, three-for-10 rights issue at $3 a share, designed to fill the gaping hole in the balance sheet left by $2.2bn worth of commercial property writedowns.

The poor response from investors saw Westpac chairman Eric Neal resign and four directors follow him out the door.

While Packer and Dunlap were offered directorships, precipitating Conroy's resignation, the raiders failed to impose their will on the board, which insisted on a less aggressive turnaround strategy. In January 1993, Packer and Dunlap stormed out of a Westpac board meeting. It was a day that Morgan, then running two-thirds of the bank, recalled in an interview with The Australian.

"I had a longstanding dinner engagement with Kerry that night at his Bellevue Hill home," Morgan said. "At about 5pm I was sitting here (at Westpac) thinking 'I've got this dinner invitation. What should I do about it?'

"Then the phone rang. Kerry said in a very friendly fashion: 'Son, you know we're supposed to be having dinner here tonight. Why don't we postpone that for a while. It mightn't be good for your career.' "

Kelly and Morgan have often spoken about the bank's risk-averse culture and how much of it harks back to the 1990s near-death experience. For Kelly, Westpac's relatively pristine, pre-financial crisis balance sheet was a reflection of that culture, and she points again to a critical internal board minute from 2006 that recommended the bank should stand aside from the unquestioning global embrace of structured credit products.

"It was a perfect board minute to reflect the conversation that Westpac was having about the exact product (that helped unleash the crisis)," she says in an exclusive interview. "And because we were strong, that was a big part of Westpac being able to acquire St George, which was the next stage of our growth."

As the crisis unfolded, Westpac formed a committee, chaired by chief financial officer Phil Coffey and dubbed Helix, that drew together its best risk managers to plot the bank's strategy to withstand the contagion and predict its likely course.

After the Lehman Brothers collapse in late 2008, the committee met every day.

Kelly says Westpac's resilience and long history is an intangible but critical element in what makes the bank tick.

"We've been here through droughts, floods and fires, so it's in the system and in the culture and people want to join the bank because of it," she says. "It's an institution that's remarkably lacking in cynicism. In a lot of other organisations, you get this 'Here we go again' piece, but it's not evident here."

Another long-serving board member agrees. "I'd go so far as to say it's a competitive advantage," he says. "When you're in a large organisation, you always look for a differentiator, and the fact that Westpac's been around for 200 years creates a feeling of security and wellbeing for customers."

Not long after Kelly joined Westpac, she started a venture called Project 2017 to try to get a handle on what the bank would look like in a decade or so.

The first phase from 2008 to 2012 saw significant investment in technology and distribution systems to try to instil a more customer-centric approach, which was followed in 2012 to 2014 by an emphasis on keeping the bank strong as it responded to an avalanche of global regulation to prevent another crisis.

The next stage, from 2014 to 2017, is the service revolution, which reinforces all of the above but with a lot more emphasis on the digital revolution, which Kelly concedes Westpac has probably underestimated.

But with the bank having survived and prospered through its share of crises, Kelly is unfazed by the unconventional threat to the banking industry posed by the likes of Google and Apple.

“All throughout my career of 34 years in banking, I’ve thought about the threat from adjacent competitors, which has been never more present than now,” she says. “But I’ll be making sure we use all our strengths — we have remarkable information about our customers, and most of all they trust us.

“There’s no complacency. We will adjust to a fast-changing environment.”

**CO** wstpac : Westpac Banking Corporation Limited

**IN** i814 : Banking | i81402 : Commercial Banking | ibnk : Banking/Credit | ifinal : Financial Services

**NS** gcat : Political/General News

**RE** austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

**PUB** News Ltd.

**AN** Document NLAUSW0020140404ea44000md

 