Australian Mutuals History Oral History Program 2023

Interview with Dr Vern Harvey

Interview conducted by Ben Woods on 3 October 2023

00:02 (BW)
This is Ben Woods, Archivist, Australian Mutuals History, interviewing Dr. Vern Harvey, 3rd October 2023. Vern, could you tell us about your early life and education?

00:30 (VH)
Just an overview, okay. I grew up in country Victoria in small towns. We moved around a lot. There was only my mother and I as my father died just before the war … My high school was Bendigo High School. My schooling was relatively undistinguished but most of those years in high school were on a bursary to help us get through. But that first year we got a scholarship from the state electricity commission, where I went to work first to go to Monash University in its early days. And that was my first contact really, with what education was which I leapt into and loved. Just the notion of understanding what education was when I got to university, and I excelled way beyond mine and everybody else's expectations and loved the learning experience. I ended up being invited to do an Honours year at Monash which led to suggestions from the university to apply for a postdoctoral Scholarship, which was a bit unusual in those days. But I managed to get a post-doctoral scholarship to do a PhD without having to do a master's which was very fortunate. I think I was a bit more of a mature student because I worked for a couple of years before I went to university, and I think that helped a lot.

02:37 (BW)
Why the interest in economics?

02:43 (VH)
I think the quality of the economics faculty at Monash at that stage was very high. When Monash University was set up, the economics faculty was largely drawn from the younger, not progressive but maybe aggressive teachers from the Melbourne University, Economics faculty who were looking more for growth personally, and for bigger challenges than being juniors in the Melbourne University faculty. And so there were a number of lecturers there who were very keen, very challenging and very supportive. So that scholarship that I had to go to Monash essentially, it was from the electricity commission in Victoria, it was a scholarship to do commercial types of activity, they were trying to broaden out from their intake of engineers into the electricity commission with some more commercially qualified people. So that streamed me into that area to get the scholarship to Monash. And that automatically led me to do the PhD in similar areas. In fact, the PhD I did was around electricity pricing

in Victoria. And the challenge in that was to get the data out of the electricity commission to allow me to do a detailed analysis of the practice of electricity pricing in the Victorian system.

04:31 (BW)
That's interesting, why was it hard to get the data? Were they not forthcoming or was the data poorly organised?

04:37 (VH)
Well, if you go through the comments I made before it was very much an engineering organisation in those days. Firstly, convincing them that anything that we were doing was worthwhile was a start. And then to adopt an economic approach to pricing separate from how the entity wants to run the organisation, they didn't really see any great need for any of the economic type activities.

05:09 (BW)
That's very interesting.

05:13 (VH)
And in fact, when I completed my PhD, I didn't go back to the electricity commission. The scholarship that I had was for the three years at the ANU. And two years in, I started negotiating about going back to them. And essentially, their view was that the PhD was really of no great value to them. And I'd effectively have to go back into the hierarchy where I was when I started with the state. And so, I had to negotiate the payment back to them of the cost of my scholarship, all of it. Which over the next number of years, I'm very proud of myself in negotiating my first financial transactions. I negotiated a term insurance policy, which at the end of, I think four or five years, terminated to the amount of the money owing. And again, an insurance cover that in the event of my death, when the debt would have moved over to my mother, it would cover that as well. My first little financial transaction.

06:42 (BW)
Wow, that's amazing. You had a big experience in Papua New Guinea at the university and in government, taking on responsible roles. Can you tell us a little bit about that?

06:57 (VH)
Yes, everybody who went out there in the Australian administration had responsible positions. None of us were in fact experienced in doing the things that we were doing. When it had been determined that I wasn't going back to the electricity commission I wasn't quite sure where I was going. And just by chance, I was walking around the grounds of the university one day and I came across one of my professors at Monash, Anthony Clunies-Ross, who was the inaugural professor at the economics department up at the University of New Guinea. And this is, this was probably two and a half years, I think, into the process of writing up my PhD at the time. They said, well, what are you going to do next? And I said, well, I'm negotiating out of going back to the electricity commission. And he said, have you thought about going to Papua New Guinea? And obviously not. And we went and had a cup of coffee, and he said, I think you'd like it. And because I was sort of in the honors class at Monash, I got to know most of them as I was a bit older than the other students. I got to know most of the lecturers fairly well. I said, okay, and I was at that stage living with my future wife to be and we went back to the house that

we shared with some others and said, what do you think about coming to PNG? She was English and had only been out in Australia for about four or five years. She had come out to ANU to do a PhD as well. We talked about it and thought it would be an adventure and we agreed to do it. The end result was that we were married while we were up there. Our first two children were born up there. We met an amazing group of people, both in the Australian administration that was there when we first went up there and otherwise. All of us committed to doing the best and the right thing for the country. All totally fresh, none of this idea of the colonial experience, we were all seeking to do the right thing for the country. How that was perceived is another thing, I guess

And, probably even more important than that, being a new university, all of the younger, smarter ones from there had been dispersed around universities to do that. That's higher education will be dispersed around universities around the world. So, the best and the brightest coming out of their schooling system that were in universities in Australia, some of them in the US, some in the UK. And when the university opened, the government said, okay, you all come back. Now we've got our own university. These were people older than me. And a number of their classes at the university were made up of people who had done two years of university at Adelaide or somewhere in the US, along with first year students who are coming straight out of high school up in the highlands. The disparity within the university was huge. We formed a university club, particularly for those older ones who were the future leaders of the country. One of my students, my rec students, within three years, I was actually working for him as he was the head of the Department of Finance, and the Minister for Finance. Well, he was my boss, three years after I was teaching him in third or fourth year.

12:11 (BW)
That's an incredible experience. After that, eventually you went to work with WD Scott, and became involved in banking and finance. How did that happen?

12:24 (VH)
I only taught at the university for two years. But I got to know the people in the government administration part of who would affect the Treasury function, at that stage being an offshoot of the Australian treasury. This is because some of the courses that I was teaching were specifically about development, and government policy. And there's more expertise over there than we had at the university. So I worked closely with some of those people, so that I could teach the real practical stuff at the university. And then I got approached by the government and they said, Oh, look, we have a bigger need here for you. Would you like to come over to work in the treasury department? They were looking for what they called an economic adviser to the potential incoming finance minister. So, I agreed to that. I got a leave pass from the university to go over to work in the government administration. At that stage, it was still the Australian government administration. It was fascinating working directly with the people who are slotted to take over ministerial roles in the new government …

HERE THE TRANSCRIPT SKIPS TO WHERE DR VERN HARVEY BEGINS TO TALK SPECIFICALLY ABOUT HIS WORK WITH WD SCOTT AND CBC BANK

18:51 (VH)

When Liz and I decided we needed to come back to Australia was when our children were coming up to preschool. And I got to know some people who were doing consulting work up in PNG with WD Scott. They were good friends, family friends. They said why don't you come and work for WD Scott in Melbourne? I said yes, but I really want to get into the banking system in Australia. They said, well, this is a good chance for you to get a job and have a look at the place when you come back, and so I worked with WD Scott in Australia, in consulting, while I had a look around and generally got to have a look at the banking system in Australia, and then the right sort of job came up after a couple of years of consulting, when the CBC Bank, the Commercial Banking Company of Sydney Limited was looking for a corporate planning person, they called it that in those days because they were sort of doing their own planning for the future type thing under a new Managing Director.

I applied for that job and got it, and all sorts of good things came out of that. I got to have a close relationship with what was in the Campbell Inquiry. And instead of four majors, there were six majors at that stage. The four that we have now plus Commercial Banking Company Sydney Limited, which was what the CBC was called. And what was called the CBA then, the Commercial Banking Company of Australia. The CBC was taken over by the NAB [National Australia Bank]. The CBA was taken over by Westpac.

That created the Big 4 which is what we've had ever since. So, I'd only been there for a year or two in the banking thing but I was the first outside recruitment into any of the executive committees of the Australian major banks. So, it was a real opportunity for an outsider to have a look, sit on the executive committee of what was one of the then major banks and see how they operate. And I particularly immersed myself in the Campbell Committee Inquiry and our submission to them. Interestingly enough, my knowledge that I had acquired in Papua New Guinea of our banking system as a whole allowed the CBC to actually take a lead position with the Campbell Committee. The payment system, which is very critical to how the banking system works had been buried down about three layers in the banking system. In Australia, it was just one of those operational things. There was probably about two layers down in the finance department. And what the Campbell Committee was essentially looking at was, today we call it the social license and things of that nature. So, I went to the senior executives and said, where can I find our bank license? Bank license, what do you mean? I mean all banks have a license under the Banking Act of 1956 which is essentially the act that created the Reserve Bank. And they had no idea and said ask the archivist. The archivist replied, nobody's asked for that. Two weeks later, he comes back with a document which was signed in the 1950s which was our bank license.

I've got a copy of it somewhere in my files. It was signed by "Henry", who was the Governor General at the time like he was royalty. Our approach to the Campbell Committee was built around the whole essence of the formal license and orienting as to how that played out in terms of what they should be looking at. And so we drafted a plan around those sorts of things. Then I had one brilliant idea to elevate the payment system. Then I started asking questions about all the cheques. ATMs are coming along and we have microchips and how does something get from one bank to another bank and get recorded in the settlement account of the Reserve Bank of Australia. It turned out that there were only about two people in the bank who knew that. So, I said how about CBC will invite the whole committee to have a daylong tour of the payment system. That is how the cheques get from the branch. How do they get to the exchange point where we physically swap cheques with all the other banks. We've got all the ANZ's cheques deposited with us, we've swapped them with all the other banks, and we'll bring all those cheques back. The Campbell Committee loved it, we had the minibus driving around Sydney, at different times of the day, when all the cheque exchanges were taking place. And then back into our banking offices, where they can sit at a computer and see all of the accounts that the Reserve Bank had and all the values for physical exchange, the value exchanges that have to take place to get the values back into everybody's right account and then how that was managed. They were so complimentary, and the other big banks were so pissed off. I was sort of steeped in that banking right from my Papua New Guinea days.

27:15 (BW)
In 1993, you became Director and CEO of Cuscal when it was the peak national body for Australia's credit unions. How did you get the role and what was happening in the credit union movement at the time?

27:36 (VH)
It was as much a personal decision for me as it was a professional one. The CBC were taken over. And I had a stint in consulting, I started with Westpac went to PA Consulting. I set up an Asia Pacific banking division for PA Consulting and then through a couple of interim steps, I ended up doing personal consulting on the issuing of new bank licenses, heading up group strategic planning for Westpac. Like what happened with a number of my jobs, I joined the CBC and then moved over and joined Westpac for about five months and they fell in the hole that was the early 90s property crash.

I spent a huge amount of time helping the team there. It was a fascinating part of my life helping the team there, helping the Westpac team survive that. It was touch and go for a period of time. Not just Westpac, ANZ was pretty much in as bad a state as we were, but they didn't get the publicity.

I was personally shattered a bit. It interrupted my family life. I decided I needed to sort of get out of that life. Once we had survived that a whole new management team came in, the board were forced to bring in a new chief executive. Change all of these things that investors were supposedly turned off by …

Through those three years working 12 to 14 hours a day, staying in the city instead of going home overnight, it was the most exciting professional time of my life. In terms of family life, I've described it to others, I was the most successful failure that you can achieve - failure on the family side, hugely successful in achieving what we set out to achieve at Westpac. Anyway, I pulled out of that and decided it was time to get myself sorted out again. I went back to my Christian commitments, family Christian commitments and said this whole corporate thing, I need to get away from that, and was looking for some time to lower that profile, the work profile.

I had done some consulting work earlier with Reg Elliot, who was at that stage the head of the Australian Federation of Credit Unions Ltd when I taken on as a consultant. And I liked the idea of credit unions. I had a good up-close look at the major banks in Australia. Somebody was going to take them on and that appealed to me. While I was with PA Consulting for over a year I worked with Reg consulting on a project called Project Renewal. Which was a personal exercise as well. PA had agreed to it. The credit unions couldn't afford PA's rates, so we charged the credit unions only half rates, and I picked up the other half personally. I personally felt some strong leaning towards what the credit unions were doing it and personally, I just liked the idea of helping out the other side, as opposed to the corporate side of the finance area.

That was a time when I was thinking of leaving Westpac, and a headhunter was pursuing me relentlessly about a job that he thought would be right for me. Eventually, I said, look, send me the papers. Over the weekend, I promise I'll go through them then I'll give you a categorical yes or no. They weren't giving me too much detail. He said, Okay, I'll check with the client. And they sent me a stack of papers, which identified who the client was, what they were looking for, and what they wanted me to do. And I opened the packet up on a Friday night when they had been delivered. And on the very top of the pack of papers, was the credit union prayer, the prayer of St. Francis. Which fell right in line with where myself and a bunch of Christian friends had been sort of praying for some guidance on the way to go. This was as clear guidance as you could possibly get. So, there was Project Renewal. There was a completion of work that I'd been working with Reg on for 12 months before I went to Westpac. This was the work that Reg had been doing for over three years. Getting agreement to manage the credit unions on a national basis rather than by state basis.

Reg did all the hard work getting them to agree to hand up all their Directorships to their state companies and all of that was the lion's share of the work, all the political work. And bearing in mind that most credit unions in those days were trade union based. He was dealing with some pretty tough nuts in those days. But they had agreed. And in fact, I had done one final presentation at the end of my stage of Project Renewal, when we completed the project, and the National Conference for that year, I think it was 1988, or 1989, up in Singapore when the pilot strike was on. And the whole conference was around Project Renewal and the recommendations of this project that Reg and I had been working on. I presented the consultants' view of what needed to be done.

I left them with an ultimatum. There's really no other way to go than what I'm recommending here. And I had a plane to catch, and I left the conference and that was the last I heard from Reg. I'd done my job, signed off on it, project completed. Then Reg went to work and here I was three or four years later, looking at this pack of stuff with the Credit Union Prayer sitting on the top of which summarized all of Project Renewal, all the work that Reg had done. CUSCAL – Credit Union Services Corporation Australia Limited had been formed. They were looking to recruit a CEO. I had no trouble deciding. On Monday morning, I rang up the search company and said, yep, I'm in for an interview, when do I go? And that I started the job. So, I joined CUSCAL, Reg was Managing Director, and I took over as Chief Executive sometime in 1993. Yes, I was in that role, then for seven years.

37:36 (BW)

Ok and what was happening at the time?

37:41 (VH)

I just mentioned that CUSCAL itself had been incorporated. There were 23 separate companies that were incorporated across all the states. The key thing that had shaken all of this up was ATMs. When it became obvious that ATMs had come across and each of the credit union state bodies had all been building around better payment system design it was obvious that if you wanted to be effective with ATMs, they couldn't be limited to a state operation.

So, the obvious thing was that there had to be national management of ATMs Because the payment system is not the physical ATMs, it's the back-office exchanges that take place that can't do the exchange. You've got people who have accounts in all sorts of other places that are using cards and you have got to have exchanges in place in all of them. That was sort of like the operational must have of it. But they had been managing I think 27 companies, each of those companies had their swag of Directors. I think there were over 100 Directors. And most of the boards, all the main credit unions have very strong union representations. In some ways indistinguishable from the superannuation funds situation.

Reg had unwound a lot of that but there were still a number of companies that were still operating. Only a handful but they were the big ones that had to be wound up into the CUSCAL organisation. We took over all of the staff from those state organisations, they had been taken on by the time I arrived. But firstly, I had to get a management team together, which I did, virtually from management who were available in a number of those existing companies. So, while we lost the Directors, most of the management was kept, which was essential as the management were the only ones who knew what was going on. So, they became my management team.

We had to wind up some of the actual companies, but they were the bigger companies which had the larger capital bases and the most influence. And that's where those managers effectively came from when those bigger companies were wound up. That left us with a staff of about 450 or something like that, we had to find a central Sydney location, which we did down near Darling Harbour, we set up the offices. There were very few terminations out of the existing companies. So that was all in the early years.

There were some difficulties with some of the managers as some had applied for the position of CEO and there was soothing required. Only one became a lingering problem. But I think the biggest challenge was we had a new board who knew a lot about credit unions but had little idea of large corporates and the expectations of large corporates that have a large corporate board. I insisted that I wasn't going to be a Managing Director, I had to be an Executive Director, I had to be on the board as well as being the CEO. That allowed me then to have an influence on how the board operated. Fortunately, I had the experience of attending a fair number of meetings of the old CBC board and the preparation of board papers for CBC board meetings and speaking to the Westpac board and dealing with boards in some my consulting activity. So, I had a good idea of what good board practice was. That meant sort of managing upwards as well as downwards and that was challenged, but basically, I had a lot of support from the Chair in those early days. I learned later that it was the Chair, Richard Crosbie, who was probably one of the strongest supporters and Reg Elliott himself, at the board level. I can’t say I won over all of the board members even in the whole seven years.

It was all practical things, getting a new company up, putting a new board up and operating effectively in a corporate market. The strategy that was behind Project Renewal initially was a very practical thing of getting a payment system built around ATMs and those practical things. But essentially, the strategy with it was we develop more at the board level, the strategy that I had as a CEO was to convince the public that credit unions were a legitimate competitor with banks. And three key ways of doing that was proving a deposit with a credit union was as secure as a deposit with a bank. Now, the banks as we started to grow and develop played that card rather mercilessly against credit unions. So that was a challenge. Number one. The second one, again, was answering the banks' criticism that we only had a limited range of retail products. Because we're only in the retail market. You can get a car loan with the credit union, but if you're looking for real banking, you've got to come to a bank and we had to change that perspective.

To convince people of this is, this is our positive response that we have a better service than the banks will give you. Because we have member owners, not customers. Over the seven years that I was there with a key management team, who were fully committed to these goals, and by and large so were the board over those periods. The first one was to convince the credit unions that what we were building was going to be better for them than the state associations were. Because not all the credit unions at the highest level of the state associations agreed to be amalgamated. Not all credit unions thought that this was going to be a good idea. My first push was very hard on communication directly to the credit union leaders, to the boards of the credit unions themselves. I put a lot of effort into communications and communicating directly with credit unions. The first step I did was to say ok to credit unions, I will be available every Tuesday morning between 11 and 12 on my phone sitting here waiting for you to call me. Any issues or any concerns, every Tuesday morning, I'm sitting in my office on the phone, here's the number, give me a ring.

I think in the first month, I might've had six phone calls or something like that. And I had a monthly communication with the credit unions themselves. For six months, I kept reminding them, I'm still here Tuesday morning. And essentially, it turned out that the six who rang were the ones who just didn't like the idea of losing the state association or maybe didn't like the idea of losing their Directorship on the state association.

But after six months or so, the latent problem there went away. But then the biggest thing was communications with the public. With the help of some people on the management team, we set up a media unit. We recruited some people who were good on media, who understood media communications, all around those three things I said that became critical.

We also knew that we had to do better in the back-office payments work. The thing that I had looked at in the CBC was nobody ever wanted to know about it, it just worked. Then we had to recruit a money market trader because once you get yourself an account at the Reserve Bank, you've got big funds sitting there and you have to be able to trade those funds.

You have to have estimates about what's going to go in and out. There's no overdraft on an account at the Reserve Bank. That's where all exchanges take place. And there's a level of expertise and experience that you are expected to have if you have an account to manage at the Reserve Bank. So, we recruited a guy from Hong Kong and Shanghai Bank (HSBC) who's name escapes me at the moment, who became Head of Treasury for Cuscal, we created a Treasurer.

So, you need public communications, the money market, your treasury operations and the third one was we had to remove a whole bunch of regulatory constraints on what credit unions and building societies were legally permitted to do. Building societies and credit unions were legislated into being in state legislation. Banks were federal legislation. And because they were lesser entities and had lesser credit ratings and had lesser federal supervision, a higher standard of deposit taking, if I can call it that, was with banks not these other non-banks. And hence organisations like trust funds and lawyers trust funds, and all of those sorts of things were prohibited. They could only have bank deposits when they deposited their secure deposits. And building societies and credit unions and others, were not eligible for those sorts of deposits. So, we had a legal team, a brilliant legal team, with about four or five people whose job was to change the state legislation in all of the states. Wherever mentioned, banks in state legislation, they were to include building societies and credit unions. So that made physical changes to those pieces of legislation in each state. And standardising those in one particular state legislation, which could then be adopted effectively into federal legislation. That was a removal of all of the legislative constraints against mutuals. A huge task. We had some very key people, some you would recognise after working there for a while, such as Marise Payne. Also, John Brodgen worked there for a while and led by Dave Taylor, who was just just brilliant. He tapped into all the underworld of legislative lobbying. Because banks are on the nose in so many places it wasn't so much convincing them of the worthiness, it was just going through the hard yakka.

You know, drafting different pieces of legislation and getting it through the drafting processes. That was a brilliant piece of work that they got through. The key thing on the Treasury side, which effectively, I had to manage myself fairly firmly. Well, to convince people on the board was that we had to get a credit rating. We had never worried about a credit rating and never had a credit rating. But to form the Treasury we had to form a company that all the surplus funds in the credit unions at the end of each day went into - a central treasury function. And it was that Treasury company that had the account at the Reserve Bank where the exchanges took place. If you just imagine that there is a central company with a central fund, where money is coming in and out daily from all the individual credit unions. And at the other end coming in and out through the Reserve Bank account, in the exchanges, through cheques, through credit card payments, through ATMs, all cleared at the central bank. With significant volumes sitting in that account overnight, to protect that money overnight it has to be effectively managed. You need a good trading team to know just how to manage those particular accounts on our behalf. Prior to setting all of that up we were doing it before, but it had to be done as a subset of a Westpac account. Westpac offered it as a service and it also meant that Westpac knew exactly what we were doing. And of course, we weren't managing our own funds in there.

Any earnings that we might be able to make on this were all lumped into Westpac's. I assume it was lumped in because we weren't managing it. In fact, Westpac was actually charging us a fee for doing it. That's how all the mutuals were surviving, that's how the cheques, for example, were being exchanged. In those days it was mostly cheques, credit cards were pretty new. So anyway, that gave us a scope to develop all the internal things that gave us control of the payment system.

57:03 (VH)
So, the critical thing was that we had to get a credit rating. Now, it all hinged upon this, this company that was managing all these funds coming in and out of the credit unions. And of course, it was the big credit unions who had the most say in that because we had something like 500 credit unions when I was there, but it would have been about the top 50 who accounted for 90% of that. And of that top 50, there would have been 10 who accounted for the top 60%. So, when all that money was flowing through that account, the bulk of the money was actually from the top 10, or at least the top 50 credit unions, who we had to convince it was running in their interests. And the way that was done was to give them bigger shareholding in the company.

So, the company that was managing all those funds, the biggest shareholders were those who were putting the most funds through and were therefore taking the biggest share of the earnings of that company. And to make that company work effectively, they had to put in capital. And the amount of capital that they put into the company was quite extensive, relative to what that company did. Now, as well as giving us access to the payment system, which was the original goal, we wanted to raise wholesale capital, a wholesale funding for credit unions, that is to go for the money market, rather than relying on just deposits in the credit unions. We could help the credit unions grow by going into the short-term money markets and raising money that the company then lent out to credit unions in its own right. So, there's two arms of that company that operates for the credit unions. We could expand that to go into the money markets to raise funds in the wholesale market much cheaper than they could. No credit union, even the big ones, could raise money in the wholesale market they're all dependent on retail deposits.

To get into that market, we needed a credit rating. And fortunately, the larger credit unions agreed to putting in an amount of capital into that company that made it highly capitalized. Now, we had that company in the early days, it had something like 50% capital to liabilities. It didn't have too many liabilities at all. But if it wanted to raise external liabilities, you have to look at the balance sheet of the external liabilities against the capital. A credit rating is the judgment of the external credit ratings agency of the likelihood of those liabilities being repaid. And that's largely based on the size of the capital you've got. And that company in those early days, had capital for something like 50% of the borrowings that we were making, which is highly capitalized. The banks at the time, under the regulatory capital, were capitalizing at something like about 12% and held in even more regulatory structures in relation to their capital base. So, we were able to get people to agree to apply for a credit rating for that entity, which was seen as a credit unions capital entity. We got, I think it was double A minus or double A plus at the time, it was the same rating as the Commonwealth Bank. Everybody was staggered. Everyone had forgotten that for an external body they're not rating the entity. The rating is designed for borrowers, to give them an understanding of the likelihood of their borrowings being repaid. And the more highly capitalized you are, the more likely you are to get your borrowings repaid. Now, they do take into account other circumstances, obviously, the soundness of the entity itself, the ownership and all of those sorts of things. The creature we created had all those elements to give us that credit rating, which allowed us to borrow in the short-term money markets that we could package up and make available as another source of funds to credit unions. That also then put us fully engaged in the payment system. This was one of the things we set out to do over that period of time, we created parity between credit unions, no matter how small, through the capacity of Cuscal. To be able to compete a credit union could borrow at a rate out of this that would allow them to offer a rate to their members that would be more like a match to what a bank was offering. Particularly in a time when rates were increasing, and credit unions had to compete against banks in their deposit rates and were very reliant on retail deposit rates. So fortunately, we're able to complete that within my time. I'd signed up for a five-year contract. We agreed at the four-year mark to a two-year extension of the contract, which suited me, I was getting more towards the retirement phase of my life. However, there were some growing trends. In my experience over the years a CEO life expectancy is okay at three years when you're getting four and five years up, you've made enough enemies over that period of time that they start to accumulate when you're getting up to seven. Unless you become autocratic which wasn't my style.

But there was a division growing. Larger credit unions were getting access to the wholesale banking market. They could expand developments within all the payment systems. The Reserve Bank changed its mind completely in relation to competition against banks. In that interim, before my consulting days from CBC before I went to PA Consulting, it was probably the peak of when the Reserve Bank was encouraging foreign banks to take out bank licenses in Australia. They've always operated in some shadow market.

Some of the earlier big building societies were considering looking at banking operations. And of course, if foreign banks got a banking license, they could get into the banking system as well. They could start doing some of these other things they couldn't do just as a foreign bank operating in Australia could now do. So, there was a lot of activity going on in seeking bank loans. That's the genesis of Macquarie Bank. Literally, in my earlier days, I had spent 12 months with the genesis of Macquarie Bank. Another chap and I, Bob Daley, we formed a company in between CBC and PA, for I think two years, to provide advice to those wanting to get a bank license on the strategy, sort of regulatory side, Bob literally on accessing payments and all those other things. He was a trader. We called it Asset Liability Management. My job was managing the assets side on the balance sheet, Bob's job was managing the liability side. And we had a good profitable business going for 18 months. We did consulting work for the Bank of New Zealand over in New Zealand, for Perth Building Society to convert into the Challenge Bank and the Advance Bank which developed with St. George.

We advised a number of foreign organisations who declined when they knew what it was all about. So, we had a very hectic time there in that interim thing. But I was also well aware that the large credit unions were eyeing off the bank route for themselves. They could see through what we had created with Cuscal, what was available to them independent of Cuscal. Or, that Cuscal had to bend more to the way they wanted things to go. And you could see this coming out in the later years in the strategy sessions that we were having. One particular division, which I think was a bit of a tipping point, was could the credit unions issue their own credit card, a branded credit card? They put it to a board committee and the board committee led by, his name escapes me, recommended that yes we should go ahead and the board agreed. But the minority side, while the board agreed, the minority side, representing the large credit unions, when it came to signing up, they said no.

I think it was inexperience, I should have spoken up at the board, they should have taken a sounding in their own organisations. I think there might have been an issue that they were represented on our board, but they maybe weren't on their own boards. We probably had the CEO on the Cuscal board but when they went back to their own board they probably weren't represented themselves when they had to sign up, because without them there wasn't the customer base to make it work. They came back and said oh no, we're not going to join. But that was when you started to see tensions within the board. Now you can see that they are the ones that have taken the banking route. But most of them, to the extent I understand it, they have still maintained their mutual character.

1:11:04 (BW)
Yes, that's true.

1:11:07 (VH)
They might still be Police Bank or Teacher's Bank or something. Still reflecting their history. So, my personal commitment was to the credit union movement. We agreed at 18 months into my extension that it was time for me to go. The board wanted someone more to help them build their future. And I could see that, to my regret, I would have wanted to see the large ones still support the small ones. But their view was no, the small ones are finished. From here on in, the only scope is for them to amalgamate. They've got to get together themselves to prove themselves or they've got to come and join us. It was consolidation. It was obvious that consolidation was the future. As far as the big ones are concerned, these were forced consolidations.

This transcript has been edited for length. The audio of the full conversation is available.