

AMCHAM Keynote – 6 February 2020

Responsible Business

Intro

Thank you for that warm welcome.

Can I start by acknowledging April Palmerlee, CEO of AMCHAM and thank you for hosting us today.

It is hard to believe that it is already February of the new year and the beginning of a new decade.

As we enter the 2020s there has never been a more important time for business to think deeply about the role it plays in society.

The foundational Friedman concept that the sole purpose of business is to maximise value for shareholders, has been debunked in a world where business and its role within society is being re defined.

Contemporary thinking argues a more sophisticated approach where all stakeholders must benefit including shareholders, employees, customers and the communities in which businesses operate.

Because it is impossible today to view business as independent from society, particularly big business. Society is rightly holding us more accountable than ever before for our actions.

What we do and how we act therefore matters.

This is what I will focus my talk on today - responsible business in the 2020s. Responsible business at a time of great change – great change in technology, change in the climate, change in our customers' expectations of us.

You have heard me talk before about the fourth industrial revolution. A revolution that is arriving through the convergence of new technologies that will enable the rapid evolution of automation and robotics.

A technology revolution that is taking the concern about computers replacing our jobs to new levels. It is also sparking a new debate around the ethics of using artificial intelligence.

At the same time, an increasing volume of data about our every move in life is being captured and this is bringing into question new concerns over our privacy.

But it's not just technology that is changing our lives today. Today more than ever businesses must consider their impact on the environment and climate.

The 2020s have started with devastating bush fires. With lives lost, homes burned, wildlife destroyed and whole ecosystems changed forever, climate change and our environmental footprint must sit at the top of our change agendas.

We need more urgent action on climate as changing weather patterns deliver more frequent bushfires, floods, droughts and storms.

Telstra is one of the largest consumers of power in the country, managing our environmental impact is a key priority. With the volume of data on our network increasing 30-50% per annum, the upward pressure on our energy consumption is considerable.

We therefore have a significant program of initiatives to do our bit and we are proud that two weeks ago we were named as one of only six Australian companies and among 179 globally to be A-listed on the Carbon Disclosure Project Global Climate Change Index.

This recognition came from our work to reduce our emissions intensity, which fell 24% in FY18 with absolute emissions reducing 4%. It also recognises our

investments in a 226 MW wind farm through a consortium power purchase agreement and the many energy efficiency projects we have delivered.

Climate change will be the defining challenge of the 2020's.

The 2020s will also see new attitudes towards how businesses engage with their customers. The concept of 'caveat emptor' – let the buyer beware is fast becoming too simplistic in today's world where some companies wield more power than nation states.

A greater level of empathy and responsibility is required today from companies in understanding their customers' needs and meeting them fairly.

The concept of fairness, or rather unfairness has been advocated recently by the head of our consumer regulatory body, Rod Sims. Rod has been making the point that consumer regulation needs to be overhauled and updated with a new simple law against unfairness.

The introduction of a new standard of fairness would require companies to think deeply about the nature of their relationship with their customers and how they are contracting with them. While I am no expert in law, I think I agree with Rod's point about fairness because when you think about it, that is what responsible business is all about.

It's about being fair, it's about doing the right thing for all stakeholders not because the regulations say so but because it's the fair thing to do – for our customers, for our staff, the broader community as well as our shareholders.

This is even more important in a world where the rate and pace of change continues to accelerate and where customers become ever more dependent on the services we provide. In our case that crucial connectivity that is essential for so much that is important in our everyday lives.

We must all therefore continue to challenge and reflect on what doing business responsibly means in the changing world in which we operate. A good place to start is your purpose.

Purpose

Purpose defines who and what a business is, and why it exists.

It should be the sign post and benchmark to every decision and action it takes.

Telstra's purpose is to build a connected future so everyone can thrive.

It is built on the premise that it is people who give purpose to our technology.

It means we are committed to staying close to our customers and providing them the best experience.

And delivering the best technology.

On the best network.

Our Purpose looks to the future but it also draws on our past, a modern expression of what we have always done.

Telstra's history of connecting Australians stretches back more than 140 years.

It includes nation building projects such as the Overland Telegraph with three thousand kilometres of galvanised steel cable erected by hand from Adelaide to Darwin across an unforgiving landscape and which connected Australia to the rest of the world for the very first time.

It includes the network of phone boxes that still stand in thousands of communities across the country and which many thought obsolete but played such an important role during the bushfires.

It includes the hundreds of thousands of kilometres of subsea cables and data centres that connect us globally and the increasingly 5G enabled mobile towers which dot our countryside.

There are very few parts of Australia where Telstra is not present and that was highlighted this summer. For many during the fires, the Telstra network was the only way for communities to connect and receive emergency information.

Even then at times our network was vulnerable to the devastating impact of the fires with 1,000 degree temperatures taking its inevitable toll on our physical equipment. Although, overwhelmingly the impact on our network was due to the loss of power and we were ultimately able to limit the physical loss of sites to 6 out of potentially hundreds.

Large teams of Telstra staff and technicians across the nation worked incredibly hard to support their communities and maintain and recover services even while their own homes and families were at risk.

I am very proud of their work and having visited the affected towns of Sarsfield, Clifton Creek, Bairnsdale and Corryong where I will be tomorrow, I have seen first hand how important this work is.

I am also very proud of the assistance we have been able to make to those affected by the fires. For example, making our payphone network free which has now supported a million local, national and standard mobile calls, making key emergency service websites unmetered for mobile customers, providing disaster assistance packages to affected customers in Queensland, New South Wales, Victoria and South Australia and paying the mobile phone bills for December, January and February for more than 8,000 fire fighters and emergency services personnel.

We estimate our contribution to supporting fire fighters and communities through assistance packages and donations will be in the order of \$10m. We estimate the total impact of the bushfires on Telstra will be in the order of \$50m.

We do these things because they are the right thing to do, because it aligns with our company purpose and values, and because it is the sort of things Australians trust Telstra to do when times are tough.

T22

These principles are also built into the heart of our Strategy which we call T22 and which we launched in June 2018.

There is no doubt telecommunications services in Australia have become too complex and hard for customers to understand and frankly for us to manage. Complex bundled plans and contracts, fees and charges for excess data and all sorts of ancillary add ons.

T22 is therefore about radically simplifying our operations and products, improving the customer experience and reducing our costs.

So last year we radically redesigned our services and unbundled them moving from 1,800 fixed and mobile plans to just 20. We are also removing excess data charges and introducing no lock-in contracts giving customers the flexibility to pick and choose and only pay for those services that they really want.

This is about fundamentally transforming the nature of telecommunication products and services and removing pain points and frustrations that have annoyed Australian customers for too long.

Getting things right 100% of the time in large complex companies that have existed for many years and through many generations of technologies is incredibly hard.

To give you an idea of the scale of that challenge, Telstra has 8 million retail mobile post-paid services in operation and our frontline teams interact with hundreds of thousands of customers every week.

The people who work for Telstra represent our brand, deliver on our purpose, live our values and follow our processes in the overwhelming majority of cases.

However, if our experience has taught us anything it is that even when we make decisions we think are in the best interests of our customers, there can still be unintended consequences. Also when we think our systems and processes are working as we had expected and designed them to, there is always the chance that in a small percentage of situations things do not work as planned.

When you are a large company like Telstra, small percentages are still big numbers. If we get it right for our mobile customers 99.9% of the time, that means we have still let down 8,000 customers. Every one of those customers is a real person we care about and that we must address.

So ultimately how you respond when things do go wrong is as important as why they went wrong in the first place and the best lessons come from the toughest experiences.

Let me share with you one experience at Telstra that illustrates the point. A moment of truth telling.

The issue

In 2017 we became aware of an issue in a small number of our partner stores, those operated by a third party under a license agreement. These stores had sold mobile devices and plans to customers that ultimately could not afford them or that may not have been appropriate for their needs.

It coincided with a time when we were further expanding our mobile coverage bringing connectivity to communities that had not previously had it.

Specifically, the issue related to Australians living in remote communities in South Australia, the Northern Territory and WA, people who were sometimes living in conditions of disadvantage, people for whom mobile connectivity was in many cases new.

As you would expect we took action, we investigated and we put in place a range of measures including additional staff training, improved credit checks and re-aligned incentive programs to try to ensure these issue were not repeated

We thought the issue had been appropriately addressed, but it was raised again with us by ACMA in 2018 and by the TIO and by financial counsellors and community legal services. It was also the subject of an ABC report last year.

Clearly we had not fully understood or addressed it.

When we looked again, we identified there were some instances where our processes had not been followed by some front line staff. Also we had not fully understood some of the cultural and customer behaviours unique to these communities.

We had thought our product offers could be readily understood, not fully appreciating that for some, the complexity of bundled offers with subsidised phones created confusion around ultimate costs. In some circumstances this led to customers buying multiple devices who could not afford them.

We also thought the implications of entering into a service contract and the commitment it presented were clearly understood.

We had not fully appreciated how the devices would be used. We did not know they would be taken by one customer but then widely shared within communities, creating the risk of large excess data charges. This was exacerbated by the dramatic increase in data use due to the rise of streaming over the last few years.

As it transpires some of our assumptions were wrong and as a result some customers found themselves in situations where they were facing significant debts worth thousands of dollars, particularly in excess data charges. This caused stress and anxiety.

These experiences demonstrate why our decision in 2018 to unbundle plans, get rid of contract lock ins and introduce no excess data charges was the right decision. We already have more than 1.8m customers on these new plans but it will take time to move all customers to them.

A related problem, in part driven by the complexity of our old plans, has been the experience of customers and their representatives when engaging with Telstra to resolve these issues. The bottom line is we did not make it as easy as we should for them.

Ultimately this resulted in some cases, our pursuing customers for repayment, including the threat of court action if repayments were not made and sometimes using debt collection agencies and selling debt. This added to the anxiety.

It is an uncomfortable truth that our financial hardship and collections processes let us and some of our customers down.

It is an uncomfortable truth that we had not fully appreciated the cultural and behavioural characteristics of indigenous communities and how that challenged our assumptions of the way in which customers would engage with us and use our services.

The issue is currently being investigated by the ACCC for potential unconscionable conduct and may result in a legal action against us.

We will obviously respond appropriately to the ACCC but in the meantime I can share what we have been doing about it.

A reflection

For a company that is focussed on building and maintaining trust with its customers and being focused on operating responsibly it's incredibly disappointing when things go wrong.

However, it is important we confront them squarely and address every concern. It is important we listen to the feedback and learn from it.

I have visited the Northern Territory and Western Australia to meet in person with some of the communities and customers affected - to hear first hand the impact these failings have had on them and how our program of initiatives to address them is being received.

What I told them was that as the CEO of Telstra, I regret our failings and I apologised for the impact they have had on them.

I told them these issues are not representative of the company Telstra is and that the vast majority of our people come to work every day to do the best they can for our customers.

I also told them the unequivocal commitment we have to continue to take action.

This is what we have been doing and in fact, we have been using it to go even further in how we think about the concept of fairness, responsible business and vulnerable customers today.

So, what we are doing?

As a first step, we are wiping many of the debts of customers in high risk postcodes – in essence, areas where our data told us there were higher rates of defaults on bill payments. We are also visiting communities to identify customers who our data analytics may have missed. We have also waived and bought back the debts sold

for all customers who were sold post-paid plans by certain stores that have been a focus of the current investigation.

Where appropriate we are also actively helping customers move to more affordable or potentially more beneficial plans where that works for them.

Secondly, we have changed how licensees are incentivised and we continue to review this. We have also worked with licensees to remove some front line staff that have not followed process.

We have rolled out new training and tools to assist frontline staff in their interactions with vulnerable customers. This training includes cultural awareness of the particular needs of indigenous customers.

Our third focus area has been to improve credit processes and controls.

There is a delicate balance in ensuring vulnerable customers have access to the technology they want against the risk they might be over-committing to services that might place them into debt.

We also do not want to be overly paternalistic, where we are making judgements and choices about customers' needs and wants.

To get this balance right we took a decision in December 2018 to place some restrictions on device purchases in some areas where our data told us there were higher rates of default on bill payments.

Those restrictions have since been expanded to apply nation-wide for customers without a payment track record with us.

Since then we have also seen the introduction of the new Telecommunications Consumer Protections Code which took effect in August last year.

The Code requires us to assess the capacity of a customer to pay when they are provided with a new service.

We have of course adopted the Code, but we have also gone further in the changes we have made to our credit management processes.

These changes include introducing system-imposed restrictions on the sale of devices on repayment arrangements to customers who have limited or fixed incomes.

Historically, telecommunication companies have undertaken credit assessments to assess a customer's ability to pay at the point of sale. We believe the industry should consider what further steps we could take in assessing affordability.

We have learned a lot by working closer with financial councillors and we recognise how important digital inclusion is for all Australians. At the same time as implementing these measures therefore, we need to ensure there are affordable options for vulnerable customers.

With this in mind, over the next few months we plan to launch a new Telstra mobile plan to support low income customers. For customers who qualify, they will be able to connect to the Telstra network on a \$30 plan with no excess data charges and a no lock in contract.

This plan, put together with one of our affordable \$99 "blue tick" smartphones will provide an affordable option for low income Australians to connect to Australia's largest mobile network.

This will be in addition to our existing suite of offerings that include our pensioner discount and Access for Everyone offers.

A fourth area of focus has been to improve the way we use customer data to help detect potential issues with sales and service practices.

We have extended the use of data analytics to improve our promotion, sales and debt treatment approaches.

Our fifth area of focus is to improve our ability to identify and respond to the needs of vulnerable customers. We have profiled around 465,000 Telstra customer accounts which we believe potentially involve some form of vulnerability or hardship such as disability, an adverse financial position or geographic remoteness.

These customers are now excluded from all direct email, SMS, mail and telemarketing and we are providing guidance to our frontline staff as to how best to serve these customers.

Our sixth action has been to work more closely with financial counsellors and community lawyers that do incredible work in vulnerable communities.

Financial counsellors play a critical role in assisting low income households and individuals under financial stress and for companies like Telstra in ensuring our customers in these circumstances are given the support they need.

We have set up a dedicated call centre specifically for rural and remote customers, with staff specifically trained to cater to their differing needs and in March last year we established a dedicated Specialised Assistance Team to work more closely with financial counsellors and community lawyers. This has helped streamline the experience by building more flexibility into their approach, including around issues like device returns when contracts are cancelled.

This collaborative, knowledge-sharing approach builds on the regular roundtables I host with consumer bodies like ACCAN and the Consumer Action Law Centre to understand emerging issues impacting our customers, and particularly how we are handling them.

Reflecting on the lessons

By any measure this is a significant program of work.

As I said earlier, what had started as a process of addressing specific complaints and incidents and remediating them, led us on a journey of a much broader reflection on what does responsible business look like in the new decade. How can we build on what we are already doing in T22 and go even further, particularly for vulnerable customers.

We will of course respond to any additional issues raised by the ACCC's own investigation which focusses on whether our conduct complied with the law. However, I am equally focussed on where our conduct, even where it meets legal requirements, still didn't deliver the right outcomes for our customers, and my comments today are made in that context.

For me one of the most difficult aspects of this issue has been that it runs counter to the work we have done with indigenous communities over many years to improve connectivity and digital inclusion.

Through our investment program, through our digital inclusion index and through our Reconciliation Action Plan. It is frustrating to know that the good work that you do can be undone, but more importantly that you may have let down the very customers and communities you are seeking to help.

It is a cautionary tale for any big business thinking deeply about its purpose and particularly its responsibilities in society in times of change.

For us, the challenges have arisen while expanding our network to provide connectivity to communities that had not previously had it during a time of dramatic increases in data usage together with the escalating cost of smartphones. We did not fully understand customers in those areas and we have let both them and us down.

The biggest learnings for us therefore have been how we improve our care for our customers including new customers in remote communities experiencing

connectivity for the first time and using the technologies in ways we did not anticipate.

You can never assume that positive intent is enough.

You can never assume customers, particularly new customers will behave exactly as you expect or that your processes and systems are adequate as circumstances change.

And you can never assume that decisions made in good faith will not have unintended consequences.

What you can assume in Telstra's case is that we will learn from our mistakes, address our shortcomings and continue to challenge ourselves to strive to meet the highest standards of responsible business.

Because at Telstra, we are committed to acting responsibly and being transparent and accountable, wherever we operate.

Last week we took the decision to stop enabling a supplier chain financing option available to our suppliers after a number of concerns and questions were raised.

Telstra did not receive any fees or commissions when suppliers chose to use this facility because the financing arrangements were negotiated between the supplier and a funding provider.

Nonetheless concerns were raised, we have considered those carefully and we are now working through how to implement the changes in a way that does not disadvantage our suppliers.

This week we announced we would also improve our supplier payment terms by reducing them to a market leading 20 days for 85% of our supplier base. This follows a previous decision in 2017 to reduce payment terms to 30 days for small businesses as defined by the Australian Bureau of Statistics.

We understand the importance of cash flow for small and medium businesses, particularly during difficult times such as those presented now from the impact of the bush fires.

Conclusion

So let me conclude.

As we enter the 2020's there has never been a more important time for business to think deeply about its role and place in society.

That thinking must go to the heart of any business, to the purpose, to the "why" we do what we do.

Businesses will always grapple with how to adopt new features and technologies. How these can benefit their business and how they can simplify and improve customer experience? Facial recognition, location tracking, AI, Big data...to name a few. These are all technology advances that could have enormous benefits for society.

I am a technology optimist and believe strongly that technology can help to solve some of society's biggest challenges. But new technologies also collectively and individually raise ethical questions and specific customer issues and as business leaders we have the responsibility of understanding their implications.

These are the opportunities and risks that today businesses are facing at pace. If we are going to get the implementation right for our customers - if we are to fully understand the good and the potential bad, and not leave any customer behind - then we need to have the checks and balances in place to identify and consider all potential outcomes.

Even the simplest positive changes can have unintended consequences. You can't set and forget. You can't assume good intent is enough. You need to live your

Purpose. Live your values. Recognise words are easy but living up to them is a daily test. That's at the heart of responsible business.

Most importantly you have to have the courage to admit when you have got things wrong, address them, make good for the customers impacted and learn from the experience.

I'm not here to lecture you on right and wrong. We have made mistakes but don't let that stop you thinking hard about your own business.

At Telstra I believe we get it right 99 percent of the time and I am extraordinarily proud of the services Telstra provides our customers and the contribution we make to society. We are making a difference and importantly when we get it wrong we do not shirk our responsibilities in putting it right.

I also know that the one percenters matter. I have learned the hard way that a lot can go wrong in that last one percent. It is often where the toughest questions can be found and you need to push your people to ask them and to feel completely safe so doing.

I mentioned earlier Telstra's Purpose is to build a connected future so everyone can thrive. The word "everyone" in that statement is important. It's deliberate and it's given special meaning by the difficult issues I have described today.

As we enter the 2020's, and what will be an extraordinary new era of technology innovation, we must also never lose sight of the fact that "how" we do things is just as important as "why" we do them. We must never lose sight of our purpose.

For us, whatever the challenges we face, "building a connected future so everyone can thrive" is still a concept worth aspiring to, because the future is not going away, in fact it is already with us.

Thank you for listening.