

Transcript: Shayne Elliott with Brooke Corte – 2GB Money News – 30/04/20

BROOKE CORTE: Shayne Elliott is the CEO of ANZ. He joins me again on money news. Shayne, thanks for your time again.

SHAYNE ELLIOTT: You're welcome. Good to be with you.

BROOKE CORTE: Thank you. Now, just on the impairment charge that I mentioned there. Could you just break that down to us and explain it to us?

SHAYNE ELLIOTT: Sure. So the total charge was 1.67 as you mentioned, a little over a billion of that was a provision or to increase our reserves for potential losses due to COVID-19. And the risk that is sort of you know, I don't want to diminish it, but it's sort of the business as usual things that we do in terms of our day to day business. But we've set aside an additional billion dollars based on a whole bunch of modelling we do that says, 'hey, if this thing, you know we think this thing does look pretty ugly for the economy' it could mean those sorts of losses. So we've put that money aside in reserve for that eventuality. And that means our total reserves available for COVID and all sorts of things are about four and a half billion dollars. So we've got that tucked away.

BROOKE CORTE: And so, as you said, based on modelling, in essence, it's a guess at this stage. What's the chance that things turn out a lot worse than that? And you have more of these hits down the track?

SHAYNE ELLIOTT: Good question. So the way that we model, we don't just have a model, we we essentially run four cases. So we won a base case and I'll run you through what that is and we run an upside from there, which is really low probability, frankly. And then we run a downside from that base case and then we run a severe downside. And it's a weighted average of all of those things. When we run that through our machines that come out and say, 'hey, based on that, you should put aside the billion dollars'. Let me just say, the base case is pretty grim, right? The base case for us is that GDP in the second quarter will fall 13 per cent. Now, that's ... that would be the thing that will be the biggest fall since the Great Depression in Australia. So really big. Unemployment would hit 13 per cent. So unlucky number on 13 here, but unemployment would hit 13 and house prices would fall sort of ... 11 per cent over the next two years. So that's pretty grim and that's our base case. And then, as I say, we weight more heavily towards downsides from that. So that's pretty grim. So now look, by the way Brooke ...

BROOKE CORTE: So what you are suggesting. Sorry, keep going.

SHAYNE ELLIOTT: No, go ahead.

BROOKE CORTE: I was going to say, so what you're suggesting is perhaps that is looking at this stage like a worse scenario than probably where we're expecting, given our economy is starting to open up and the recovery is playing out for health perspective, I guess pretty well for us.

SHAYNE ELLIOTT: Yeah, I think that's fair. And look this thing is moving so fast. I mean, it's easy - we all feel like we've been in this for months. But in reality, this economic impacts been sort of six weeks. Right. And I remember when the board make that decision and we run through that case, we are required to make an assessment as at the thirty-first of March. And to some extent the thirty-first of March is ancient history a lot's happened since then. I think if anything you'd say on the balance of probabilities, if I had to make a judgement today, that base case that we've modelled probably seemed on the quite

pessimistic side. I mean, since then we've seen the JobKeeper thing have a real impact. We've seen the government start to move away from this idea of a six month hibernation, much more now towards a gradual opening of the economy. So I don't get ahead of ourselves. And I don't know ... I don't know any better than anybody else. But I'd say they look like pretty conservative and prudent numbers from my perspective.

BROOKE CORTE: Also, the word that was used to describe the decision on the dividend today, because as we spoke about on this program on Monday, NAB elected to still pay a portion of its dividend. But you've decided not to do that. You've deferred that decision to later in the year, which looks pretty sensible given what we've just spoken about and how uncertain it is. But was the decision not to pay the dividend also about sending a ... I don't, is it about sending a message; bank dividends should not be considered a given all of the time?

SHAYNE ELLIOTT: Look, I think that wasn't our intention to send that signal, but I think it's a fair signal to send. But that wasn't the ... I don't recall ever having that conversation with our board and making that decision. What we decided and we try to keep - these are very complex decisions, there's lots of stakeholders. We try to keep this really simple. We are in the eye of a storm, literally, right? This thing is rapidly changing. I mean, while we might feel a little bit better today than we did a week ago and two weeks ago, it's still really, really uncertain. And our question was, is this the right time to be writing a cheque for a billion or \$2 billion to our shareholders that, you know, once we've written that cheque, we can't get it back. And so we just said, 'look, we could pay it, but we might live to regret it and that could be literally, you know, a week or two away and we regret it, so why do we have to make the decision now?' We make the decision now because it's a quirk of history that this just happens to be the time we announce our results and we happen to call a number on the thirty-first of March. Well, there's no magic to that. And so we just said 'let's just buy time'. And I think that ... any of us in our life, under stress is not the right time to make decisions. And we said we don't have to make a decision, so we shouldn't. So we should just buy a little bit of time. Let's just see. To your point I think earlier, you said, let's see how the economic clouds clear and how they work out. And then we can make a decision then.

BROOKE CORTE: Now, last week we had the government giving the banks collectively a bit of a whack, saying you were acting maybe a bit slowly on this vital issue of bridging finance as it relates in particular to the JobKeeper payments. So, bridging finance is the money businesses need to pay the staff before those payments come back to them from the government. Now, this issue has been massive for small businesses in particular. And look, it's probably the biggest flaw of the JobKeeper scheme, although I think there are many. How have you? Have you actually been able to expedite loan requests in the last week? Have you seen any traction? More businesses coming to ask for that and have you been able to satisfy those requests?

SHAYNE ELLIOTT: Yes, we have. So we were able to get our act together on that. And we've put together a program we've made and, you know, we've advertised and made it really available. And we've now figured out a process for how to do that. Because there's obviously a bit of processing the background and we need to be able to get some level of assurance that that customer really has got JobKeeper money coming. So we've done that. Now, to be fair, part of that, you know, beat-up - and it was a fair beat-up on the banks and it was a fair beat-up on ANZ and I take responsibility for that - is we, and I had sort of misunderstood a little bit about how that JobKeeper practically worked. And what we had done - and we're a little bit different to our peers - really early on in this crisis. we went out and said, we didn't even know about JobKeeper, we just said to our customers, small, SMEs, we went to all of them and said, 'look, if you're already borrowing money from ANZ, from us and you've got an overdraft, we will give you an increase in that, we'll increase your overdraft by 10 per cent'. Sort of no questions asked. If that's what you need, we'll give it to you. Now, because we did that a lot of our customers didn't need JobKeeper finance. So when I got the call early on for the government saying 'how many of your customers are applying for JobKeeper finance?' I said, 'well ... almost none. And so ... Of course, some of our peers said, 'oh, we've got thousands'. So we looked a bit of an outlier and it was only

later and we looked into it and went, look, the reason we don't have so many is because we're giving them money through a different method. So the government kind of called us to task and said, 'oh, can you do a better job of sort of understanding whether your customers are using that money for JobKeeper or not? So that's what we're doing. And we've now got a proper formal process and, yes, we've been processing hundreds of applications for that for that loan.

BROOKE CORTE: And I just love the honesty of trying to navigate that whole JobKeeper, as it was announced because I mean, honestly, for small businesses, it's been a complete disaster, especially as you've got to go through the ATO as well, just in terms of basic stuff like eligibility. You know, it's shifting around even dates and who gets it, who doesn't. And apart from that huge wage bill it presented to some that might have even been bigger than it was in the past. But do we just accept that JobKeeper while, yes, it was well-intentioned, in execution it has been such a disaster it may not be the saviour for workers and businesses that we had hoped?

SHAYNE ELLIOTT: Look ...

BROOKE CORTE: Or am I being too pessimistic. I just feel like ...

SHAYNE ELLIOTT: You might be a little bit too pessimistic. I think it is absolutely well-intended. Remember, look I have to give the government a break on this one. Everybody's learning as we're going. They're absolutely throwing huge resources at this thing. And let's just put that into perspective, because I think it's really interesting. In this, in a couple of months, literally in a matter of weeks, this government has acted swiftly and boldly and put ... support of 10 per cent of GDP behind this entire crisis in a matter of weeks. Now, let's contrast that to 2008 going into the GFC. In that time, the government of the day put about six and a half per cent of GDP behind the crisis. But over an eight month period, so it was a series, a rolling series of support. Let's go back to 1990. 1990, that - which was when the recession started and unemployment peaked in 92 - the government of the day there only supported the economy by three, about three-and-a-half per cent of GDP over five years. So this government has acted much more swiftly than in the past and much more decisively. So it is a good program. But I agree. I think, you know, it's like everything I imagine these things get ... thought about, people are under pressure to make decisions, well-intended, don't always think through - dot the I's and cross the T's on exactly how it's all going to work. The good news here is though that industry, the banks, the ATO, the government all got together, solved it, figured it out and moving on. It isn't perfect. Look, I have to say it's not the same ... again, I don't mean to be critical, but the super withdrawals is not a lot different. We're struggling on that one. I don't think any of us foresaw a situation where we would be allowing superannuants or people saving into their superannuation being able to draw down the \$10,000. So ... I can tell you at ANZ we did not have a process set up for how on earth we would do that. It wasn't envisaged. So that was a bit of a surprise and, you know, we're doing as best we can. But the reality is that many of our customers, sadly, are waiting longer than it should to get that money. It's not bad intent, it's just, you know, we're trying to figure this out as we go along.

BROOKE CORTE: Shayne Elliott, thank you. That's Shayne Elliott, the CEO of ANZ.