

FINSIA Panel - QLD Leadership series

Smoothing out troubled waters: Finding Queensland's bridge for growth

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Speech Notes

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I'm delighted to be here today, in such good company, to talk about the after effects of the GFC and the future of Queensland. It's certainly good to be talking about the after-effects finally, given the past two years of this event have had a very different focus! But let's not claim victory yet as I feel we will continue to weather the fall-out from the GFC for some time to come! The very present situation in Europe is testament to this and locally we are still seeing stress in some segments.

Queensland has long been a powerhouse in terms of growth and, while we may have slowed during the GFC, we certainly didn't grind to a halt. The outlook for commodity exports is improving following a return to global economic growth, resilient demand in emerging Asia and some recovery in world commodity prices.

Just try renting a house in Gladstone or Mackay and you'll understand what I'm talking about!

In addition, employment seems to be improving too. In fact, March was the fifth consecutive month in which Queensland's trend employment grew, so we're definitely heading in the right direction.

We do, however, face significant challenges as a result of the impacts of the GFC on the Australian economy as a whole, which of course impact every single State and Territory.

To my mind, one of the most significant outcomes of the GFC for the banking industry was the consolidation in the sector and the subsequent reduction in competition.

Consolidation in the industry has reduced the number of regional banks to three, with a number of mortgage brokers and non-bank lenders falling by the wayside too.

Obviously competition in the Australian banking sector has suffered as a result of this consolidation, and it would appear the ACCC is alert to this issue, having recently blocked NAB's attempted takeover of AXA.

So what does this mean for the average Australian?

Well, obviously they have fewer banks to choose from. There are now only three banks offering an alternative proposition to the big banks, and we are all under increasing pressure as the power continues to move to the big guys.

We are facing pressure in terms of our margins – look at all the regional banks and you'll see their margins are contracting while the big guys' margins are expanding.

We are facing pressure in terms of our funding costs, as we try to manage reduced access to securitisation markets and increased costs in the wholesale markets with the anti-competitive pricing of the government guaranteed funds we are holding.

And we are facing pressure in terms of the costs of the increased compliance and regulatory burden that is in the pipeline, which is much more significant for a regional bank to absorb, and which I will talk more about in a minute.

But don't reach for the violin just yet. It's not all bad news.

Because BOQ kept lending throughout the crisis, we have continued to grow our lending faster than our bigger competitors.

And because our growth largely comes from dissatisfied customers of the big banks deciding to move to a better service proposition at a regional bank, our path isn't too closely tied to the ups and downs of the economy.

In fact, our continued growth and profitability during the GFC can be attributed largely to the performance of our unique Owner-Managed Branch Model, which is why we are now planning to re-accelerate our branch expansion program.

In addition, our recent acquisitions of St Andrew's Insurance and CIT Australia New Zealand are helping us achieve scale and enter new markets, while also assisting us meet our commitments to the market in terms of margin improvement and reducing the capital intensity of our business.

So all in all, we're in a pretty positive place!

That's not to say I don't have sleepless nights. I do, and at the moment it's due to the many regulatory initiatives the Australian government is sending down the pipeline, as well as the discussions around international regulation.

Now this isn't a Queensland specific issue of course, but will have significant issues for Queensland. The issue we face, as a nation, is that those driving the international regulation are those who were caught out by the GFC, namely the United States, Europe and the UK.

Here in Australia, our banking system demonstrated itself to be one of the safest and most secure systems in the world, and I think that's largely due to the extremely sound regulation Australian banks face.

So it would be foolish in the extreme to try to 'fix' the Australian banking system with remedies designed for a far less stable system, and that is one thing all Australian bank CEOs agree on! I don't envy the task ahead for our regulators to ensure they get the balance right.

It can't be denied that the government's fiscal stimulus packages did help boost both the Queensland and the Australian economy. Whether they were executed well, or even helped the right people, will be fodder for commentators and dinner party conversations for years to come. And no doubt in this election year we will hear time and time again that they were the best thing for the Australian economy, and the worst-managed and over-the-top stimulus packages we've ever seen, depending on who you're listening to.

But what can't be denied is that the Australian economy, and the Queensland economy, did not plunge as deep in to recession, or even skim the surface of recession, as many had anticipated.

Whilst this means that Queensland's bridge to growth will not be as difficult as we thought it may have been this time last year, that doesn't mean there aren't still troubled waters that need to be smoothed out.

I don't think that small and SME business is out of the woods yet. The first casualties of the GFC, with the subsequent drying up of finance, was the corporate sector, and there is a time lag between this and the trickle down effect on SMEs.

Access to finance for SMEs is a really hot topic at the moment, and it's a difficult one for banks. On one hand, as an industry we're damned if we give money to people or organisations and they can't afford to repay their loans. On the other hand, when the industry tightens its lending and compliance standards to reflect the changing market conditions, it is attacked by every media outlet for letting small business down.

The proposed mining super tax introduces substantial uncertainty that will make it difficult for new projects to proceed. And in Queensland that means substantial uncertainty in our own coal and gas investments and prospects and no doubt could have a major impact on job growth in our state.

On the broader issue, the government's decision has seen a dramatic fall in the value of resource companies in Australia which has a direct effect on millions of Australians who

have superannuation with the major fund managers, we have seen the Australian dollar come back with major outflows from foreign investors and the real possibility that investors will switch from mining companies with operations in Australia to companies with offshore operations. This would not be good for Queensland or Australia.

I also don't think that the commercial property market is out of the woods yet, and won't be for at least 18 months or so. While there are some glimmers of hope in terms of the major banks starting to lend in pockets, and there continue to be transactions happening by private investors, the reality is there is an incredible amount of commercial property currently sitting with receivers or banks. Luckily for this segment, the banks haven't started trying to sell them all at once, which would obviously flood the market... however until normal lending returns to this segment, which I think is probably around 18 months away, it simply isn't a rational market.

I am going over my time limit, so let me sum up some key points I think Queensland needs to be able to find our bridge for growth.

Firstly, I think we need not only a strong and stable banking system nationally, which we have - I think we need a competitive banking system which will allow access to competitive finance for all levels of business in Queensland.

Secondly, I think we need continued action on the Queensland Government's agenda for change, specifically their Smart State ambitions around Queensland being strong, green, smart, healthy and fair. The thinking and the plans are there, I think they need commitment to execution and the buy-in of all Queensland businesses and governments, because there are going to have to be trade-offs to implement them.

Thirdly, I think that at all levels of politics, there needs to be genuine leadership - and by that I mean giving up on the populist, newspaper cycle, vested interest agendas that I'm sure that everyone in this room, and across Australia, are frankly quite sick of. We need genuine politicians who make genuine decisions for genuine progress and public good.

And finally, I think we need daylight savings for south east Queensland, and another premiership for the Brisbane Lions.

Thanks for your time.