



NZBPT BUSINESS OVERVIEW



Anthony Healy, CEO and Managing Director, Bank of New Zealand

TOMORROW NEVER DIES. BEING GOOD WITH PEOPLE, WATER AND MONEY

Address given by Anthony Healy, CEO and Managing Director, Bank of New Zealand

Kia ora koutou. Good evening everyone, and thank you for inviting me to speak. This is my second major speech of the day. The first was a little more nerve wracking – I was attending my son's school speech competition.

Patrick is nine and he was doing a speech on the power of speeches. He talked about the influence that speeches have and ideas have on

history, on politics, and on communities. He quoted Martin Luther King, Abraham Lincoln, and he even quoted the Prime Minister.

My purpose this evening is not so grandiose but I do hope that the thoughts I share with you contribute to a better understanding between business leaders and politicians, because I believe we share the same

purpose which is to create a better and fairer country for all New Zealanders.

BNZ was actually founded with that purpose in mind, in 1861 by Thomas Russell, which was about giving New Zealanders a better deal. I believe this is still in the bank's DNA. I was asked to speak tonight about looking out to 2025 and to make some predictions or

forecasts about what the world and banking might look like in 2025.

Three things I'd like to talk to you about today:

1. The future of banking in 2025.
2. The drivers of our economy in 2025.
3. A focus on working together as leaders for a better 2025.

FIRST – WHAT’S THE FUTURE OF BANKING IN 2025

As a banker and economist I know that forecasts and predictions are highly unreliable. There are many predictions that the new digital age will disrupt banks, and that is already happening. Bill Gates famously said back in the 1990s that the World Wide Web would never catch on. He also said more recently that we always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten years.

I lie awake at night sometimes thinking about alternative currencies, block chain technology, peer-to-peer lending, digital wallets, alternative payment channels, virtual reality banking, artificial intelligence, and voice biometrics. Those are just some of the things that are starting to disrupt our sector. I see them as threats but also huge opportunities for us.

A few months ago we launched the first digital wallet in New Zealand, one of the first digital wallets in the world. It was in conjunction with the main telcos here and ASB – one of the other banks. We were one of the first to put voice biometrics in; which is giving our customers a much better experience so that they don't have to go through 35 questions each time they phone up our contact centre and have to identify themselves.

At their heart all these innovations have a couple of characteristics in common. They are meeting a customer need in a better or more efficient way. Simpler, more transparent, more cost efficient, faster.

Some futurists are predicting the end of retail branches, or even banks as we know them. So it will be up to banks to innovate, to meet customer needs in a better way, to be more convenient, transparent and cost-efficient.

And the banks that succeed will be the ones that put their customers at the heart of what they do - and continue to deliver the values that are essential in human relationships - trust, transparency, honesty, sound advice, care and respect, and most importantly support in good times and bad.

To my second theme; what will be driving the economy in 2025?

You can point to a couple of strengths today that will continue to be important economic drivers in the future.

AGRICULTURE

I don't need to convince anyone in this chamber of the importance of agriculture to the economy today, or in ten years' time. Despite the current downturn in milk prices, we see that at BNZ as more cyclical in nature than structural.

NZ producers are at the bottom end of the cost curve globally. So they are much more cost efficient. No matter where the price goes farmers will continue to be – as they have proven to be over ups and downs – very resilient. And that in the long term, I think demand for safe, secure, high quality proteins from China and Asia will underpin this growth. Every year in China, 30 million people become middle class and they start consuming proteins.

But no-one wants to be overly dependent on cyclical commodities. We need to move up the value chain and capture more of the margin that otherwise gets captured somewhere else. There are already some great examples in New Zealand of people embracing that. For example, Tatua, Dairy Goat Cooperative, and of course Fonterra are leading the way here. Vital that we support our farmers as they tackle two key challenges: Supporting farmers as they tackle challenges with environment and water issues. This is an emerging

issue for us with increasing regulation. I've spent a bit of time with Dr Jan Wright, Parliamentary Commissioner for the Environment, and I know in this Parliament and in the Minister's office there is a lot of thinking going in to how we tackle these issues. Fonterra is doing a lot of work on fencing our waterways, and preventing Nitrogen and phosphorus run off.

We did a survey of our farming customers at BNZ. We discovered 91% of farmers are concerned about the impact of their activities on the environment; but less than 50% have spent significant money on tackling those issues. I think, frankly, because they don't know how to tackle it. An example of where it gets really complex is in the Hawke's Bay with the Rua Taniwha scheme.

Secondly, in terms of supporting farmers, we need to support them through tough times. There's a person and a family behind the bank balance and the forecast payout – and there are thousands of them.

So in our survey we asked them: what were the top two things that keep farmers awake at night? Yes, weather came first – and rightly so. But the second one was regulation and compliance that is increasingly complex that they are trying to navigate their way through (being imposed by 'pen pushers' and 'townies').

But ultimately I think – and I'm going to talk a bit about gaps later on – there is a gap between what populations start thinking about and what farmers need to do from an environmental stand-point, and we need to work out what to do to bridge that gap.

We asked our BNZ farmers where they turn in tough times, and after family and friends the third most popular place to go for help is the bank. That maybe a surprise to some of you. In fact, we have invested heavily in resilience programmer because resiliency is a critical issue for farmers. We've put over 2,000 farmers through a programme run by an individual called Doug Avery; who's been very high profile on this particular topic.

The research that BNZ conducted also highlighted for me that many of our agri clients are SMEs themselves. Most of them have between 1 and 5 employees have turnover of less than \$1m per year. Which brings me nicely to the other key driver of our economy.

SME SECTOR

SMEs are vital to the economy today and they will be into the future. SME growth should be encouraged especially at a time when falling world dairy prices means has never been more crucial to have a diverse economy.

How are we encouraging innovation, growth and entrepreneurship? Are we doing all we can to encourage our SMEs to thrive? And are we applying that same rigor to agri sector as SMEs in their own right.

Last week, Minister Foss got to hear from 20 of BNZ's SME customers in Auckland and Wellington. The overriding key theme of those meetings was education of business owners. Some felt

that there is good support for start-ups and those looking to export – but not much in place for those who are established and wanting to grow and lift their capability to compete.

Many have a great skill to sell and but that doesn't automatically make them great at running a business. And I often see businesses get to a certain size and scale and then fail to take that next step.

Usually it's because the skills that have taken them from starting to where they are now, are not the right skills to help them take the next step. We've had good conversations with Jacinda Ardern and David Clark on the topic – because I know you all want SMEs to succeed irrespective of your political persuasion. At BNZ we're supporting SME growth through a number of channels.

One that is close to my heart, because I've been on the board for six years, is the ICEHOUSE. A partner of the ICEHOUSE for twelve years now is NZTE, and they do incredibly important work running owner/manager programmes, and a number of other business growth programmes. The purpose of those is to get managers thinking about their business, not running it day-to-day.

A lot of SMEs think their problems are unique. But when they come together on these programmes, with other SME owners, they find their issues are all the same. We support initiatives to help SMEs commercialise great ideas and access funding for growth; for

example, Webstock - the largest Tech event in NZ, Lightning Lab – the major business incubator, Deloitte's fast 50, and the Kiwi Landing Pad San Francisco.

SMEs will have an increasingly important role to play in what 2025 will look like for the New Zealand economy. The small SMEs of today will be the large businesses of tomorrow and employ more people and contribute more to the economy. And the notion of tomorrow brings to the third question:

How can we build a future that's better and brighter for New Zealand in 2025?

Today, more than ever, we need leadership and co-operation between business, central and local government, and not-for-profits, to develop the best New Zealand possible. And a strong bank is important. Yes, BNZ is a bank and yes, we make money. And yes, we – and all the main banks - get our fair share of criticism for that.

But, being financially strong enables BNZ to continue investing in New Zealanders, and making a contribution to the wider prosperity of 'New Zealand Inc.'

If we made less profit we'd attract less capital and we'd be less able to invest in New Zealand.

ACKNOWLEDGING THE TENSIONS THAT EXIST FOR BUSINESSES

To those of you here in the private sector, I know the tensions you face. We at BNZ face tensions between delivering shareholder returns, navigating an increasingly complex regulatory environment, meeting the rapidly changing needs of our customers, and most importantly to make a difference in our

communities. I think that is what gets most of you out of bed in the morning. This is not an either/or discussion, it is about balancing all of those demands.

So, of course, for the Parliamentarians in the room, I imagine you have your share of tensions. You need to get the balance right between

managing the needs of your electorate, the needs of your party and the need to be re-elected. And the needs of your constituents might not always be aligned with the national interest. And for you personally – to feel like what you are doing makes a difference and that you personally believe you are doing the right thing to build a better New Zealand.

I think that's the overriding driver for most of us in the room. To build a better New Zealand. That's what drives me as a leader.

And we have a huge opportunity to work together, to address the gaps facing New Zealand.

AND THERE ARE GAPS

I see a lot of the country and I see gaps. And some of those gaps are getting bigger. And I see a chance to lessen these gaps, with the notion of private sector, government and not for profits working together. We're too small a country to have everyone working on the fringes of these big problems. Our efforts singularly are commendable, but collectively could have a far greater impact. There are three gaps I'd like to finish off with today.

Gap One – Being Good With Money

This is BNZ's brand statement and what we stand for. But it's more than that. It's inherent in what we do every day. Part of that is looking at bottom end of the socio economic rungs in New Zealand that don't have access to finance, education and housing. There are deep long term issues to deal with here, many of them inter-generational.

COMMUNITY FINANCE INITIATIVE

I wanted to share with you, a good example of how the private sector, government and not-for-profits can work together really well – and that is BNZ's community finance initiative. We launched this last year with the Salvation Army, the Good Shepherd, and the Ministry of Social Development.

We've had great support from Minister Bennett firstly, and now Minister Tolley. And I'd like to acknowledge in the room BNZ's

Frances Ronowicz who heads our community finance initiative and is doing brilliantly.

It's in a pilot stage in Henderson and Manukau (up in Auckland) and it works with people who don't meet standard bank lending criteria, and have exhausted the central government assistance available to them, but are still in need. These people are often referred to as financially excluded.

They're having to turn to loan sharks who charge crippling interest rates and penalties. Someone who had been caught up in that cycle showed me her bank statement a couple of months ago. In twelve months she paid twice the amount in interest that she borrowed in the first place.

These are good, hardworking people who manage what little money they have, well. They just don't have a buffer at the end of the week to cope with the unexpected expenses. To repair the car that will help them get to work and keep work. The fridge that will allow them to have healthy food available for their children.

Community finance offers low and no interest loans and BNZ has committed \$10 million to facilitate this. I'm aware that I'm privileged to not have faced the hardships of the people who need community finance.

I was out at Henderson last month and met a young woman. She was a single mother with three children and came to us for assistance. She needed to transport them to school and she needed a car to do that.

So we facilitated a loan through our community finance programme. She worked with the Salvation Army on budgeting so she could pay that back over time. I checked the car out and had a good chat to her, and she was thinking about how she was going to make ends meet.

So she can now drive her kids to school. But more than that, she had a bit of an entrepreneurial streak, and so she brought a people mover. I said to her; "you've only got three kids, why

do you need a people mover?" And she said; "well I know a lot of people like me who don't have a car and can't drive their kids to school. So I reckon there's a bit of an idea in this."

So she's now started a child transport business, off the back of what was a very modest loan, to help get herself up the rungs.

So I know we're making a difference. I think it's not just about being good with money, it's about being good with

people. For me this was such a proof point that when private sector, government and not for profits work together, great things happen.

We welcome future conversations with our partners in this community finance initiative to roll this out to other areas beyond the pilot.

And on my fragmentation point, just one statistic I recently saw some data that said there were 54 separate not-for-profits trying

to deliver financial literacy and budgeting services in Auckland alone. All taking different approaches, all probably sub-scale; and about 33% of that disparate ecosystem is funded by MSD. I believe there is a better way.



The second gap I'd like to talk about is diversity – the changing face of New Zealand now and in 2025.

Yes, it is an interesting topic for a white middle class male banker to talk about. Or as Mai Chen, our new director at BNZ, calls folk like me: pale, stale and male.

Diversity is good for business – it unleashes human potential, gives businesses access to the widest talent pools, leads to more diverse thinking, more innovation, better decision-making and ultimately better

returns for shareholders. Capturing the value of difference will be increasingly important to businesses competing in a globalised marketplace.

In New Zealand, women only make up 21% of senior management and 14% of the boards of listed companies. There are still significant barriers to the advancement of women and our organisations

are missing out on the potential that gender diversity unleashes. New Zealand society is changing: trade, capital and people flows are bringing us closer to Asia and changing the face of New Zealand society; Maori are a major political and economic force in New Zealand; Auckland has the largest Pacific Island population in the world; we are a truly multi-cultural, multi-ethnic people. We need to reflect this changing face

of New Zealand in the way we think, our business models, the make-up of our work-force and the way we engage with our increasingly diverse customer base.

And this is most apparent in Auckland. More than 200 ethnic groups live in Auckland and it's more diverse than London or Sydney, with 40% of the Auckland population made up of different ethnicities.

Gap three - Auckland

So that's a segue to bring up the 'A' word and the 'H' issue. You might roll your eyes at another conversation about Auckland housing. But this is a very real issue that impacts NZ Inc and the overall good of the country and economy if we don't solve it. So, consider a few facts:

- There are varying reports of how many new homes we need in Auckland. A supported view is that 13,000 per year and we're just under 8,000 so we're starting from a poor position.
- If there is a goal to have the same occupancy rate of 2.58 people per home as the rest of New Zealand, we're about 76,000 new homes short.
- The latest QV figures came out last week - the average house price in Auckland is now \$828,000. So to buy an average home, you need \$165,000 as a deposit. Auckland prices have risen 51.6% since 2007. If you consider the Reserve Bank LVR restrictions to help cool down the housing market – which I think were the right calls to make – people generally need a 20% deposit. So a typical couple buying a first home need to save \$165,000 to buy an average house in Auckland. I don't know too many who can easily save that much money.
- Almost half the migrants to our fine country settle in Auckland. That's unlikely to change as they look for jobs, established communities to join and the opportunities New Zealand's largest city.
- As we tackle housing we also need to address the infrastructure gaps to facilitate the impact this has on transport, waterways and utilities.

I talked about the need for central government, not-for-profits and local government to work well together to get good outcomes. The establishment of the Auckland super city was a key example of how this worked – can we harness the intent to make progress in Auckland housing?

One way we at BNZ are working together is through our support of the Social and Affordable Housing Development Guide. We're working with New Zealand Council for Sustainable Development, Community Housing w and Auckland Council on the Guide which will launch later in the year.

I met with Lewis Holden last week – new Deputy State Services Commissioner. Basing this role in Auckland, speaks volumes and we look forward to working together. He's connecting the dots on the issues we're all stuck on - how can we tackle these seemingly entrenched problems?

But we see big gaps between local council, central government, and even the Reserve Bank on how to tackle the issues. Perhaps business can help bridge these gaps to facilitate a clear and aligned plan for Auckland?

Close

We're a small country – if we try and solve our gaps and social challenges individually the result will be sub optimal. However I'm confident the spirit of collective efforts and our leadership can deliver better results for New Zealand by 2025.

I encourage and welcome central government to see past the political process and try and work more closely with private sector and local government to solve our gaps. Like Auckland housing. To help those who need support. And to grow our economy. To create a better New Zealand for your voters and for our customers.

Thank you for having me this evening.