News Release

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Transcript of bluenotes interview with ANZ Group Executive Retail & Commercial Mark Hand

Andrew Cornell Thanks Mark for joining us in what have – again - become more challenging times which are quite different across the country. Yet all too familiar. How are you seeing things given Victoria and the ACT have joined NSW in extended lockdowns while the other states are pretty open?

Mark Hand Thanks Andrew, good to be talking to you. You're right, last year we were talking about everything being unprecedented whereas this year, as hard as lockdowns are, it feels like people know what to do.

If I look at home loan deferrals, last year we had customers take them out almost as an insurance policy and they did it in large numbers. None of us had lived through a global pandemic like this before and there was a real sense of shoring up and that gave us all a chance to catch our breath. On the whole that approach worked.

The good thing is almost all those who took deferrals last year are back in good shape. With the new wave of lockdowns the banks are offering further deferral support this time – albeit with a few more questions to make sure it's the right option. The numbers are vastly different though with only around 2% of the deferrals we saw last year.

What does that tell us? Government support is continuing to have an impact. Customers are more confident and possibly see a light at the end of the tunnel…vaccinations rates are also continuing to rise. Households were very sensible last year and boosted savings.

There was a lot of cash in the system which has set up the economy well and this is probably having an impact on how customers are managing through differently this time around.

Andrew Cornell The Treasurer Josh Frydenberg just announced changes to its loan guarantee scheme. How important are measures like this given there doesn't seem to be strong demand for credit?

Mark Hand It all helps. Yes, it's true most businesses are just looking to be able to open their doors and for those businesses taking on more credit may not be the answer. But there are businesses looking to invest or even diversifying.

The changes announced broaden the eligibility for existing schemes and that's a good thing. It may not be the right solution for all businesses but there are plenty out there where this makes sense.

But yes, I'm sure we'd all agree, the best thing to help get businesses open is to get lockdowns behind us and the only long term path for that is driving up vaccinations.

Andrew Cornell How is all this translating into house prices?

Mark Hand It's quite remarkable really and only last week our own economists bumped up their numbers with prices now expected to rise just over 20% for the year. Much of last year's bounce was recovering losses from 2018 and 2019 but the market is looking strong across the board. This time around it's not just capital cities and we've seen strong demand in the regions as people reassess where and how they want to live. People are also taking advantage of being able to live in one location and work in another. Our economists are predicting this price growth will soften a bit next year to just over 5%. I should point out rising house prices is not unique to Australia. The US, UK, Canada and even New Zealand are all experiencing pretty similar conditions.

Andrew Cornell How is this flowing through to the performance of your own home loan book? APRA stats out earlier today would suggest ANZ is finding it tougher than your major rivals?

Mark Hand That's a fair assessment of the last few months. I would point out though that APRA stats are a pretty blunt measure of market share and we're not necessarily going to chase share at all costs.

We've done a lot of work over the past 18 months on our processing capacity and we saw a very strong performance in the home loan business in the second half of last year. What we didn't predict however was the huge, sustained rise in application volumes in 2021, particularly in the refinance market with customers shifting to take up fixed rates. This means we are now handling double the applications we were two years ago and unfortunately assessment times moved out to a level we weren't happy with.

So what have we done? We have a dedicated team of people working hard to improve assessment times. That's been pretty successful with time to first decision – speaking on average here – down to about seven days for apps received from brokers. That's even faster for simple, PAYG applications and those applications that come through our own branches because these customers already bank with us it's a lot easier as we already know a lot about them.

It does then take more time to get to a final decision, but were are working on ways to reduce the rework loops and limit to-and-fro to collect the information needed to give that final answer. We know that is frustrating for the lenders and customers.

This improvement in response time is largely due to both increased resourcing and reallocating existing resources, that is, more assessors as well as some process improvements and simplifying some of our policies. The next critical step we are working on is automation of manual steps and processes, and that is going well and will set us up for future volume fluctuations.

We've had to be really focussed on areas of the market that are key to our strategy and that's very much around owner occupiers. Really importantly we didn't change our risk settings and we haven't used the price lever to chase share for the sake of it. We know we need to be competitive with pricing, but it is always with a focus on managing returns as well. I can't talk too much to margins and returns until we get to the full year earnings release but we've been pretty pleased with our disciplined approach here.

Andrew Cornell So when do you expect to get back to growing at system?

Mark Hand It's an interesting question given there are several parts to the market. As you know Andrew we have been more focussed on the Owner Occupier market…you know those who live in their home. The good thing about this market is it's much better from a bank-wide perspective. They also tend to have other products and stick with us for a long time. The nature of owner-occupiers though is they pay their homes off which is great from a financial wellbeing perspective. And while it's a great thing for customers it means we have to work even harder to replace that FUM, those lending assets, on the balance sheet. That's okay, we're up for the challenge but what we are not going to do is change any of our risk standards. We will have levers we can pull but don't expect us to chase unprofitable growth.

As I said before, we understand the impact when our response times are too slow, but pleasingly, with assessment times in the broker space having improved somewhat we are seeing business from that channel starting to return. Brokers are a hugely important part of the market given there are plenty of customers who prefer the independent nature of their advice. We've probably been the most reliant on the brokers of the major banks and I'm pleased we are starting to see the broker business return.

As for when our volumes get closer to system, we are more focussed on growing in a robust and profitable way with an eye on our target segments.

Andrew Cornell Thanks Mark for talking to bluenotes

Mark Hand Thanks Andrew, any time.

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