Transcript: Shayne Elliott with Gareth Parker – 6PR – 16/11/20

Gareth Parker: My next guest is the CEO of the ANZ Bank, Shayne Elliott. Welcome back to 6PR Mornings.

Shayne Elliott: Good to be with you.

Gareth Parker: What did your share price do this morning before you got rubbed out?

Shayne Elliott: Oh, I wondered what had happened. I think it was up a little bit.

Gareth Parker: Thank you for your time. There's plenty to discuss, we want to go through a few different issues here. But can I start with interest rate setting decisions that have happened for your bank since the Cup Day official interest rate cut by the Reserve Bank where the cash rate was cut to 0.1 per cent, a historic low as we all know. We haven't really seen mortgage rates, variable mortgage rates, move. Why is that?

Shayne Elliott: Really good question. So, if we cut our minds back, actually the last time there was a rate cut earlier in the year, we actually ANZ was one of the few banks that passed that on. The reality is that this tightening of the market was already ahead of the Reserve Bank. So the actual cost of money, and I think it's important that listeners remember that we don't get money from the Reserve Bank. It sets us a rate there. But the actual cost of money was already down at 10 basis points. So that was already there. And then we get into this difficult thing, if we pass it on to borrowers, then we … we're a business like everybody else. We then have to pass it on, also on the deposit side. And they're already at sort of zero for most people or getting really close. So what we did instead is we said, 'Look, the best thing we can do here is actually make it cheaper for people who want to get new loans, particularly in small business'. So in small business loans, we cut those by, depending on the sort of package, somewhere between 50 and 100 basis points. So a lot more. And we came up with some really fixed rate specials for people taking out a fixed-rate mortgage, because that's really action is Gareth. A lot of people realise, hey rates are really at historic, all-time lows and I can lock at two, two and a quarter per cent for a couple of years. And that's where the demand is at the moment.

Gareth Parker: Why, in a business sense, are you able to offer that much lower fixed rate rather than the higher, but still low by historical standards, variable rate?

Shayne Elliott: Good question. So, it's like everything there is swings and roundabouts here. So, on the fixed rate side, the cost of long-term money has come down. Because one of the other things the Reserve Bank did – and this is sort of in the techy end of what the RBA did – they've got this thing called a Term Funding Facility, which they started earlier in the year. So they said to the banks, 'hey we can give you three-year money, we will lend you this money', so this is different than their normal cash rate. 'Hey we can lend you money for new lending at just 25 basis points for three years'. And so because of that, we're able to take some money from Reserve Bank and then pass it on to our customers at a really, really ultra-low rate. And so that one, there is an ability to do that. And we weren't alone to be fair. All of the banks have come out with some pretty sharp fixed-rate specials, as I said, somewhere in the low two per cent, that sort of range. Which is pretty phenomenal really.

Gareth Parker: Yeah. Are you seeing much appetite from your customers to fix their interest rates if they're currently on variable?

Shayne Elliott: Huge. So normally, over the last couple of years, you'd say about 15 per cent, so about one-in-seven loans was fixed rate. That's doubled. So it's now about one in three, or one in four. Now what people do, which I think is actually pretty smart, most people won't go all fixed or all floating. So a lot of people do half and half. So they say, 'Look, I'll keep half on floating and I'll put half in fixed'. There is a bit of a down side with a fixed rate, let's not forget, because you are committing to borrow at that rate for two to three, or four years or whatever. So you can't really change your mind about cost later. And that, so it's not all a positive. But yes, there's a big demand for fixed rate and I think it makes imminent sense.

Gareth Parker: The reason that we're having this whole discussion is because the Reserve Bank's cut interest rates to try and stimulate economic activity. That's the whole point of it.

Shayne Elliott: Yes.

Gareth Parker: And central banks everywhere are trying to figure out this sort of magic recipe to get some growth happening in the economy.

Shayne Elliott: Yes.

Gareth Parker: And I had really interesting discussion with Professor Peter Martin about all of that a few weeks ago. One of the things that this relies on, is it relies on businesses to take a risk. To say, look we think we can do something with two per cent money or two and a quarter per cent money. Are you seeing an increased appetite from business to borrow money from you that actually go out and then create some economic activity and create some jobs?

Shayne Elliott: The short answer, no. So, no, not yet. Now, we might be a little bit different than others. Our view is, look there's an abundance of money available today. In the last four months, Mums and Dads and small businesses in Australia, have increased their deposits with the banks by 100 billion dollars. Right, 100 billion dollars. So the banks are awash with money. So, and money is cheap. It's almost free if you really want to borrow it at, as you said, two per cent, three per cent … very little. But that doesn't change demand. And, demand as a small business. No, there isn't a lot. There's always going to be some. But no, demands actually remained very, very stubbornly low. And I sort of think that makes sense. I mean, there'll always be an entrepreneur out there who wants to have a go at something, that's great. But on average, right now the world's still a bit risky, right? And I think people look out and … I was on a call this morning with a whole bunch of customers in South Australia. Look how quickly things turn.

Gareth Parker: Well, yeah.

Shayne Elliott: So people are just going to go, 'oh look, I might wait a little bit longer'. So I don't think it's got to do with availability of money, or actually at this point the cost. People are just wanting, I think they want to get through Christmas. See how Christmas trading goes, see how this virus thing goes. Let's see what's happening with the vaccine and then maybe you'll get some more activity early in the New Year.

Gareth Parker: Anecdotally, the feedback I have from so many people I've spoken to is that if they've managed to keep their job – and which is not true of everyone, but I think in this state we've been more fortunate than many – they are just ploughing money into their mortgages or their credit cards or their personal debts. They're just trying to get debt free as quickly as possible or certainly reduce the debts.

Shayne Elliott: Well it's not anecdotal, that's the fact. That is absolutely what's happening. What's interesting Gareth, is en masse your Australian family is acting textbook like a corporate treasurer. Just like the treasurer would at BHP or Woolworths or whoever. What are they doing? They're hoarding cash, so they're saving what they can. They've cut their household expenditure back because they're just saving for a rainy day, things could get worse so they've cut back. They've paid down their most expensive debt. So credit card debt, which is usually pretty stable year-on-year and doesn't really move, has fallen by 25 per cent. So people have paid down their credit cards and personal loan debt. They've piled into their offset accounts. Our offset accounts normally at ANZ we normally have about $26 billion in offset and the last few months has gone to $33 billion. So people are doing that and they're paying down their mortgages. So they're acting very, very prudently, which is a good thing. Because they remain a little bit cautious about the future.

Gareth Parker: It does beg the question, though, whether the strategy of cutting interest rates to try and stimulate economic activity is going to work, though. I mean, if everyone is sort of too scared to spend household and business, well is continuing to cut interest rates actually going to do anything?

Shayne Elliott: Well, clearly the impact diminishes. You're right. As we get lower and lower and money becomes cheaper and cheaper, yes, the impact diminishes. At some point it will … And look, there are some positives here. Confidence is actually pretty high. Surprisingly, despite everything we said, there is a bit of consumer confidence out there. People are spending. They're spending differently than they used to. They're not going on overseas holidays for obvious reasons, so they're spending a little bit differently. So at some point it will turn. The question here is, what is that tipping point? What is it that changes people? My view, and it's again, it's just a personal view. I don't think it's about the cost of money. I think it will be to do with this whole pandemic and the vaccine and travel restrictions and all those other things. At some point, something will happen and there'll be a bit of a trigger and the collective community will say, 'hey, I feel a bit more positive about the outlook now. I am going to start that business. I am going to get out and borrow a bit of money and expand the house or invest into a new business’ or whatever it might be, that will come. But who knows when.

Gareth Parker: Well, exactly. And I wonder, do you think that the international headlines are dragging on local confidence? We live in a very, notwithstanding what's happened in South Australia and Victoria, we live in a very COVID-free country by nearly every international comparison. Yet the stories coming out of Western Europe and the United States are pretty hair raising at the moment.

Shayne Elliott: I think so. I mean there's obviously many upsides of living in a connected world and we benefit from it. But there are some downsides and one of them is that. I think you're right. And I think these little trip ups here and there and as I said, sadly, the current one in Adelaide just sort of reminds people, gosh, it wouldn't take much for this all to go pear shaped again pretty quickly. So I think there is that element of caution. Yes. I think we live in that global news cycle and again, just those little things happening, even though it's very small number of cases in our own backyard, is a reason for people to remain a little bit cautious.

Gareth Parker: About two and a half weeks ago, when you released your results, you also announced a new green lending policy. David Littleproud, the Agriculture Minister, appeared on this programm. We had quite a swing at you, here's what he had to say.

David Littleproud "I think banks need to stick to their knitting. They shouldn't become the moral compass and dictator to society. We have clear policies. Everyone is working towards reducing emissions. Their job is to provide capital and to keep business moving. They should let that happen. The market should be open and free."

Gareth Parker: What's your reaction to that, Shayne Elliott?

Shayne Elliott: Well, I think he's wrong with all due respect. It is our knitting to decide who we lend our money to. We are a bank and we take risk. And when we give money to people, we have to evaluate the probability of getting it back in the first instance. And secondly, it's not our money remember, it's our shareholders and our depositors’ money. Do we generate a decent return for the risk we're taking? What we've done with our policy is said that the risk involved in lending to carbon heavy, high-emitting industries, thermal coal in particular, has gone up. It's gone up a lot in terms of risk there. And therefore, it would be imprudent for us to continue to lean into that sector. And let's just remember what we did here. We didn't cut and run. We didn't say we're leaving Monday morning and we're getting out. We've given a 10-year view to say, 'hey, we're shifting our attention. We've signaled this before and we're just taking another step forward. We're working with all our top 100 emitting customers.' That's who we're working with, not mum and dad farmers, the largest emitters in the country. We’re going to sit down and we've been talking to them about what are they doing to lower their emissions. We've had nothing but positive feedback from those customers and we will work with them to a transition to a low carbon future. That is our knitting that is what we do.

Gareth Parker: Right. So you're arguing it's not virtually signaling, it's business.

Shayne Elliott: It is absolutely business. It's no different than, we assess risks of all sorts of industries every day. That's actually what we do for a living. And as I said, we assess the risk, we price the risk, we think about the returns … And we've made an assessment in this particular case that our capital, that the right thing to do to protect our shareholders and depositors, is to invest in the future and future-looking industries and they're around renewables. Now, as I said, we're not cutting and running. We already had some exposure to coal. It's reducing. And we're just saying, 'hey, when those things fall off, we're not going to renew them'. Or there are some stringent controls in there about what we will and won't do. And we thought the right thing to do was make it really clear.

Gareth Parker: Shayne Elliott, appreciate your time. Thank you very much.

Shayne Elliott: You're very welcome. Thank you.

Gareth Parker: The CEO of the ANZ Bank, Shayne Elliott, and I do appreciate him making himself available to us. He's done it on a number of times over the last several years. And I think it's fantastic when the CEOs of big Australian companies do speak directly to you. So you can hear from them for yourself.