Bendigo and Adelaide Bank Limited

2019 Annual General Meeting, 29 October 2019

Chairman's address

In my letter to shareholders in the Annual Report, I discussed two matters, and in this may last speech as Chairman, I'd like to revisit them.

The first matter is the issues brought to a head by the Hayne Royal Commission into misconduct in financial services. My point was that, while an investigation into the particular and widespread instances of bad, often illegal behaviour by banks and other financial institutions and by their executives and agents was well warranted, the crisis as it became did not just appear out of nowhere. If we were to get to the underlying causes, if we were to have a chance of bringing about reforms to the industry to remove the conditions which not only allowed but even encouraged the misconduct, then we needed to go beyond the findings of the Commissioner. I suggested, fairly obviously I think, that the underlying causes need to be understood in the context of the Global Financial Crisis, in the reasons why that crisis occurred and in the responses to it by governments and regulators. Australia avoided the worst of the financial crisis as it broke in 2008 and 2009 but generated its own crisis, this one of misconduct, a decade later.

Since the Royal Commission there have been I think 5 books published, mostly rushed out, written by reporters who followed the proceedings on a daily basis. And there has been a plethora of new legislation and regulation and more enquiries into various aspects of the industry and its regulators. But only recently has there started to emerge discussion of the implications of the competitive structure of the industry. If the conduct in financial services has been so appalling, if customers are so angry, why have so few changed where they bank?

One answer is that the major banks have had such large competitive advantages as a result of the rules on capital that it is very difficult for organizations with different operating models or with different forms of customer relationships to compete and to offer customers a different proposition. The major banks have had this advantage since 2007. I think there is no doubt that the "wisdom" that led to these rules in financial regulatory systems around the world contributed to the explosion in leverage, credit availability and poor risk management which led to the GFC. While their impact has been reduced significantly, so the difference in capital requirements for advanced and standardized banks is now not as great as it once was, the advantage is still massive. It is likely under the announced proposals from APRA on the capital rules that the advantage of the advanced banks will shrink further, but it will still be decisive.

Regulators have valued financial stability over competition and, as the various self and external assessments into risk management and governance structures now show, much of the work within the banks purportedly on these risk management systems has been ineffective and even counterproductive. So far the response has been to impose even more regulation, even more bureaucratic interventions. On the one hand we want to encourage credit to flow easily and cheaply into the economy and so the banks are encouraged to lend, and the price of money is reduced further and further. On the other hand, we want to protect the system against abuse, so we create more hurdles and barriers to do anything and so, we think, reduce the risk of mistakes.

The better response would be to give more power to customers by ensuring that different organizations with different customer relationship propositions for customers can compete on individual products on a level playing field. "A level playing field" is not some abstruse intellectual construct as the review of APRA by the Samuel committee seemed to suggest. But it does require the system to accept and even encourage a degree of dynamism, of instability and creative destruction. If the new rules on ownership of data and open banking and all the investments in and encouragement of new challenger banks and fintech companies are to be more than short term window dressing, this fundamental issue of more even rules for capital allocations across the industry must be addressed.

The second matter I discussed in my letter in the Annual Report is the work we are doing to change and adapt to the new digital world. Every part of our business, what we do and how we do it, is being interrogated and will need to be reconstructed. You, our customers, have been trained by Google and Amazon to expect a seamless digital service wherever you are in the world whenever you want it. You will be hearing a lot more from the bank about this over the next few years.

Of course this transformation has been happening for some time now. For some time the mobile phone has been the most popular way to access banking information and services. Our digital bank Up Bank is attracting customers from every age group but mostly young people and our connection with Tic:Toc, the online home loan business, is proving a great success.

But the amount of change over the next 5 and 10 years will be I expect more than at any other time. The relationships with our digital transformation partners IBM, TCS, Ferocia and many others will be crucial. Our old and established partnerships will be part of this transformation too, and we are working with all of them to produce a great range of ideas and locally adapted solutions. Community Banks and the communities in which they live and operate are as challenged by this process as are we. So we will all work together.

Now I would like to invite the Managing Director to address you.

Robert Johanson

Chairman