

CEO UPDATE

Future Economics Forum
Tuesday 13th April 2021



Topics

- ❖ Introduction
- ❖ The Capricornian and Central Queensland
- ❖ COVID19 - Legacy and Lessons for your relationship with your Bank or Credit Union.
- ❖ Financial Services Landscape from Central Highlands to Australia
- ❖ Business Banking – Maximise your potential for a strong relationship

THE CAPRICORNIAN LIMITED WHO ARE WE???

- The Capricornian Limited is a Co-operative Financial Institution that is 100% owned by our customers. We are also the only APRA Approved Deposit Taking Institution (ADI) with its focus and HQ based in Central Queensland (CQ). Proudly a Credit Union we have resisted the move to become a 'Bank'!!!
- This year is our 61st operating in the region and following our recent new branch in Springsure, we have 7 branches and our call centre based in CQ.
- Our 60 staff service over 12,000 customer/owners with a full suite of retail and small business (SME) products and services.
- With Assets in excess of \$400m we have been a significant contributor to funding housing and small business lending in CQ and we intend to remain local.

CUSTOMER OWNED BANKING IN QUEENSLAND

cua

the
capricornian
savings | loans | insurance

Heritage Bank
People first.

 **Queensland
Country
Bank**

RACQ

 **MOVE BANK**

QBANK


Cairns Bank
est. 1899

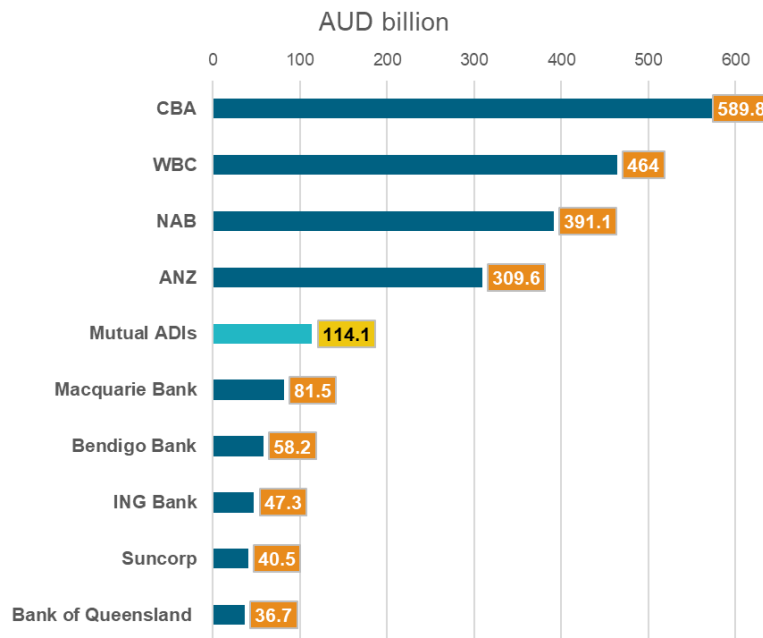
**WARWICK
CREDIT UNION**

BANKING IN 2021

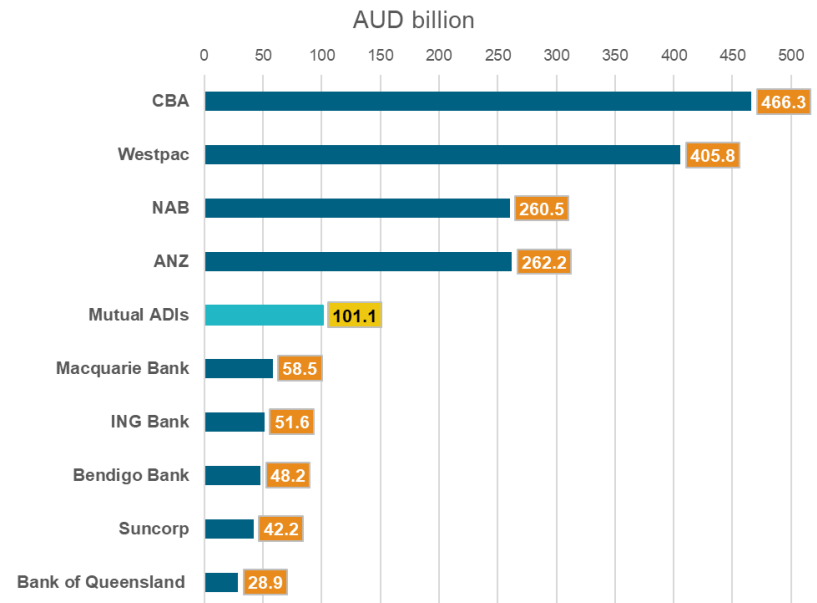
Size of the customer owned banking sector

Mutual ADIs have total retail deposits of \$114.1 billion and \$101.1 billion in total mortgages - making them cumulatively the biggest retail deposit holders and mortgage lenders behind the Big Four Banks

Total Retail Deposits



Total Mortgages



COVID 19 – Impact of Financial Services

- The social, business and economic impacts of COVID19 have been a ‘paradigm shifter’. The shattering impact of lockdowns and uncertainty was felt to different degrees in different locations.
- The Capricornian’s experience indicated that the impact here was lesser than other parts of the state and nation, the impact ended sooner and the recovery has been nearly complete.
- We had only 3.8% of our loans seek hardship support v a national average of just under 10% at the peak.
- All our hardship loans have been reset.
- We signed up to the SME support scheme and have had very little interest from our SME customers.



Financial Services Landscape from Central Highlands to Australia

What are the mega trends in Financial services globally that will impact the Central Highlands? What will Banks focus on that will directly support/hinder how you live and do business in the Central Highlands?

- ❑ Banks will continue to seek to pursue structural cost transformation initiatives to bolster operational efficiency. Branch rationalisation will continue to accelerate as one of the levers to lower fixed costs.
- ❑ Cybersecurity is a growing challenge for the banking industry. The threat volume, velocity, and variability continue to accelerate, as the attack surface of banks expands through rapid digitization and externalization of digital infrastructure. Banks will begin to expect not just their suppliers, but their customers to have vastly improved cybersecurity systems.

Financial Services Landscape from Central Highlands to Australia (con't)

- ❑ Low interest rates are here for the short to medium term. Banks have traditionally generated most of their income from net interest margin and as this is under pressure they will look to replace that revenue lost in a low interest rate environment with fee income. Expect to be charged more for labour intensive activities. To pay for what you get!
- ❑ Digitisation is a global trend in all industries but especially so in financial services. Banks will continue to invest in digital, customer-facing technology with the goal of a seamless customer experience. These won't be digital-only channels but also in-branch experiences, such as self-service digital kiosks/interfaces. As they become more digital they will expect you to as well.
- ❑ Regulation will continue to grow globally, increasing costs for Banks and as a consequence for customers. If the level of regulation continues to expand as it has in recent years it may well see a further reduction in competition and increase in fees.

Are Fintech's the answer? - Exits and entries - considerable movement in the sector

- **Oct 2019:** APRA calls Xinja, 86 4000, Volt and Judo the “first wave” of challenger bank applicants, with subsequent applicants in various stages of passing through the process.
- **April 2020:** APRA announces suspension of issuance of new ADI licenses for at least six months due to COVID-19.
- **Jan 2021:** Xinja to relinquish its banking licence formally to APRA “in the next few weeks” & completes return of deposits.
- **Jan 2021:** NAB announces agreement to acquire 86 400. NAB commenced discussions with 86 400 in late 2020 and currently holds 18.3 per cent stake with intention to acquire the remainder of the shares for \$220 million by way of a scheme of arrangement.
- **Feb 2021:** APRA announces plan to implement a revised approach to licensing new ADIs, following a recent review of the pathways to a licence that built on lessons learned to date.
- **Feb 2021:** ACCC reviewing NAB’s proposed acquisition of 86 400. Submissions due by 26 February, findings due on 15 April.



**Xinja exits the neobank scene:
What happened, and what does it
mean for the competition?**

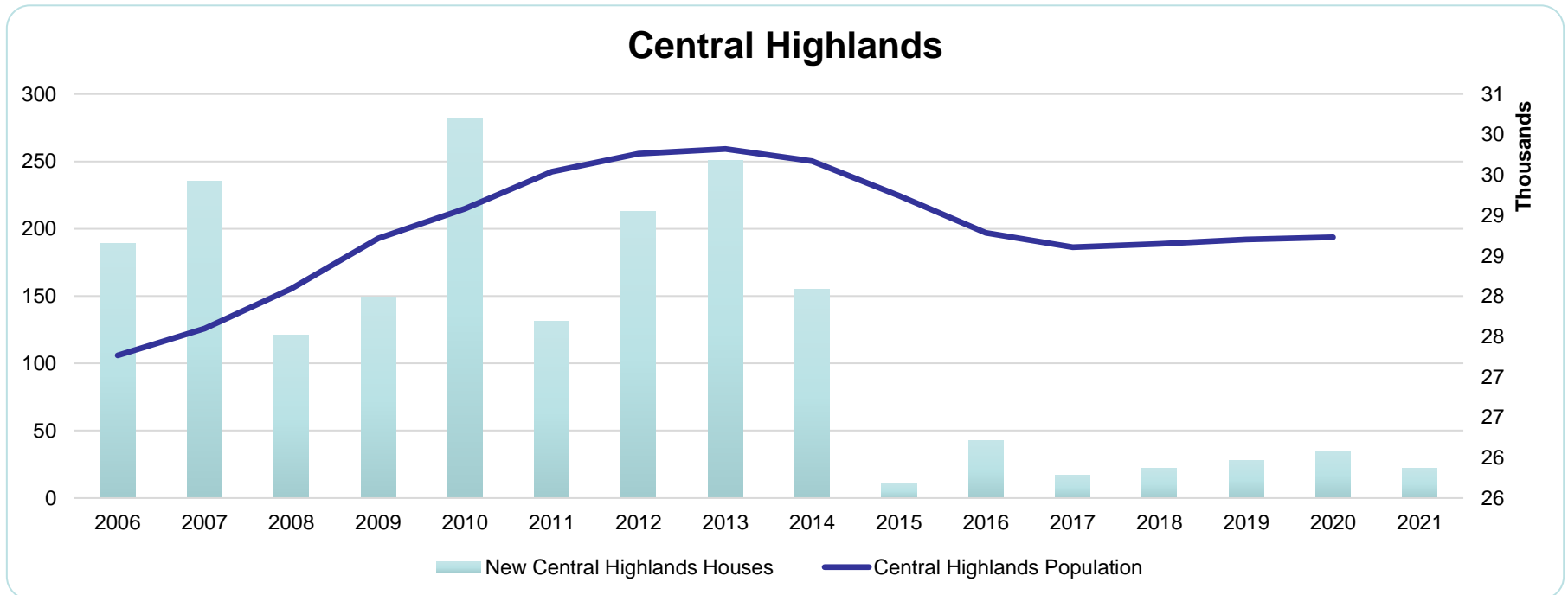
MEDIA RELEASES

**APRA updates licensing approach for
new banking entrants**

NAB scoops up neobank 86 400

New Home construction- Central Highlands

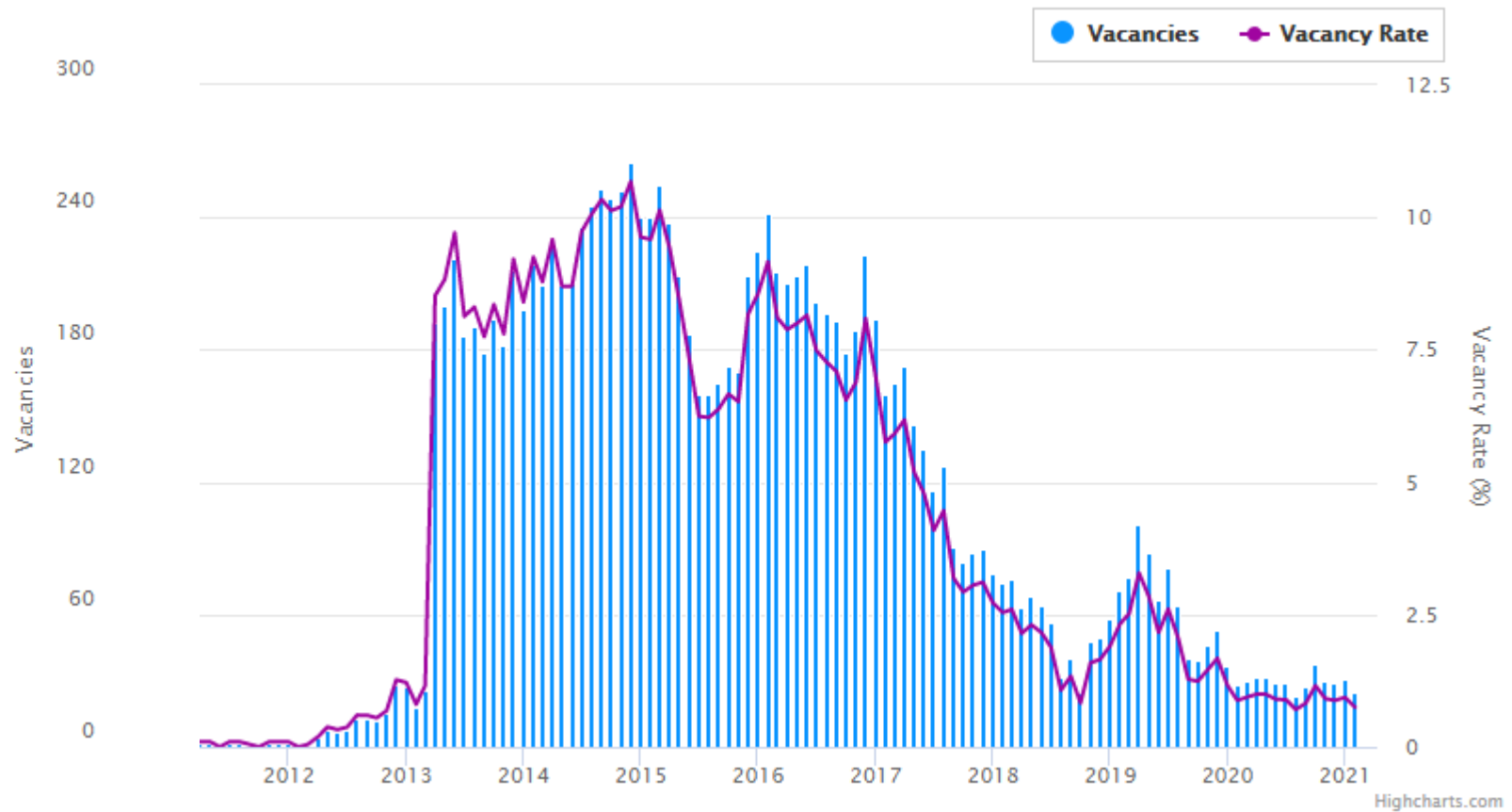
- Population growth drives housing growth. And Rental Vacancy rates (<1%) indicate existing stock is being absorbed.



Rental Vacancies - 4720

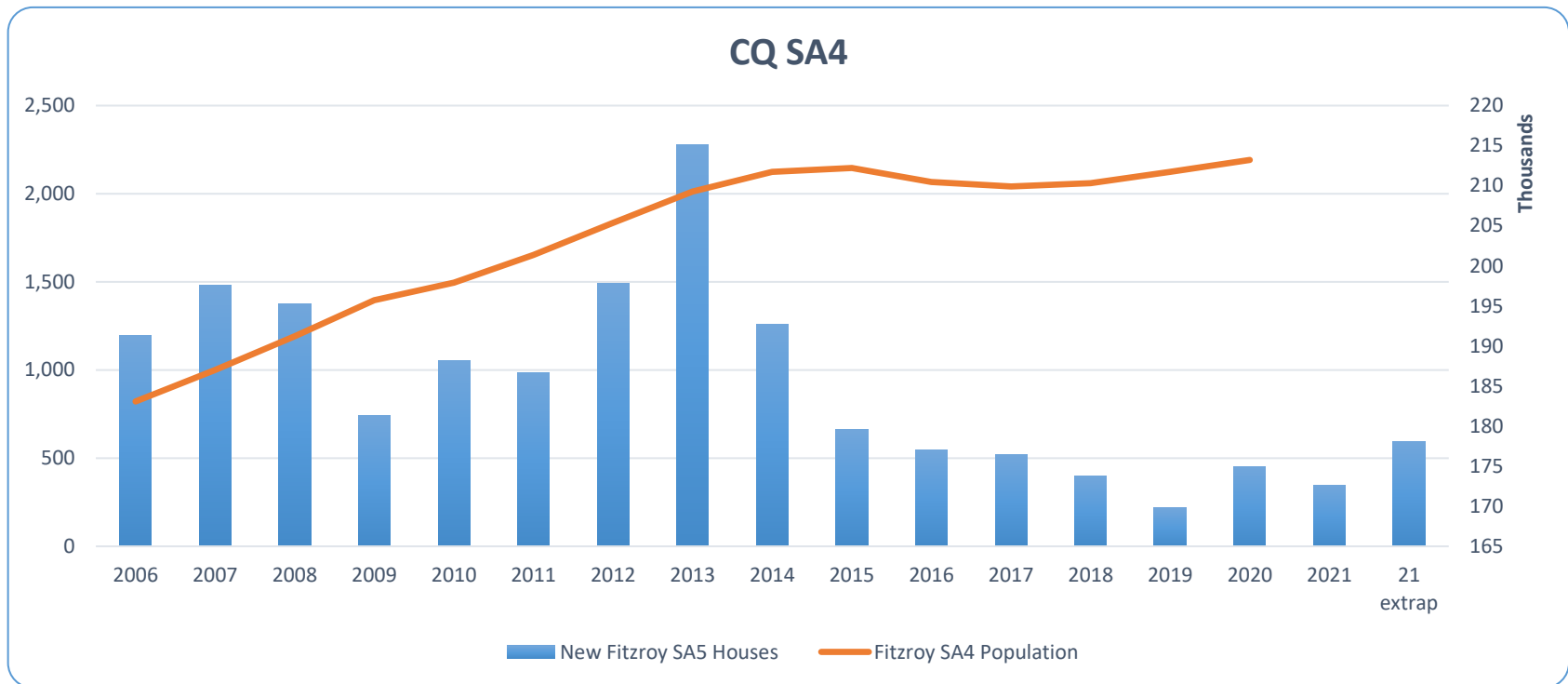
Residential Vacancy Rates

Source: SQM Research



New Home construction- SA4 CQ

Population growth drives housing growth right across the CQ SA4 Region.



New Home construction

- ❖ Our prediction is for growth in new housing building back to long term average of around 120 new house a year in the Central Highlands area over the next 2 years.
- ❖ Overall in CQ we expect new home approvals to rise to around from expected 550 this year to around 750 per annum in the same period.
- ❖ Key drivers being; population growth returning to long term averages (Regional growth COVID impact); low interest rates over medium term; and, economic growth.

Maximise your chance of a strong relationship – SME or Ag - General advice only

- ✓ Communicate often and proactively with your bank.
- ✓ Challenge them on rate, loan conditions and value add. Be a squeaky wheel.
- ✓ Build a strong relationship. Get to know your banker and if they don't want to know you find a bank (or Credit Union) that does.
- ✓ In exchange your bank will expect you to display high quality management of your business and have up to date and accurate financial information available. This is in addition, of course, to a coherent strategy, realistic business plan and reasonable income.



FEEDBACK
&
QUESTIONS



Thank you.

