Transcript: Shayne Elliott with Neil Mitchell – 3AW

Neil Mitchell: The Federal Treasurer has had a go at the big four banks saying they're quick to pass on interest rate rises to borrowers but not to depositors. He says it's disappointing. He said he will tell the banks that he feels like people are relying on their savings and are being principal victims of interest rates at historic lows for some time. On the line, chief executive of the ANZ, Shayne Elliott, good morning.

Shayne Elliott: Good morning.

Neil Mitchell: So did the Treasurer belt your heads together or not?

Shayne Elliott: Only through the public media. But look, I think it's a bit unfair. We have put our best foot forward on a savings product, we've got a savings account out there at call 2.5%, I think that's pretty good. You'll find that that's the highest rate of any major bank out there and I think that's exactly where it should be, 2.5% is a pretty good yield given where the cash rate is.

Neil Mitchell: He said he was going to make the point to the banks privately. Has he not done that yet?

Shayne Elliott: Not to me, but I imagine I'll get that call at some point.

Neil Mitchell: Okay. So when did your rates for depositors go up?

Shayne Elliott: They went up first thing yesterday, so Monday. And just remember, we have a range of deposits out there, there are all sorts of accounts that people have and they will price differently. Some of them don't have the top-level rate. But as I said, our hero product, our ANZ Plus product is a savings account, it's at call, no fees, 2.5% yield I think that's pretty good.

Neil Mitchell: And what's the best I can borrow for a home loan? What are you charging me there?

Shayne Elliott: That's a really good question, obviously it'll be higher than that Neil. Again, there is a range depending on owners and people’s risk profile and all that other stuff, I couldn't get off the top of my head where that is at the moment. But obviously, they reprice and they're going to be higher. That's how banks work, we have to pay for deposits and we on-lend them and we use the difference in the middle to pay for the stuff that we provide in terms of branches and digital services and all that other stuff.

Neil Mitchell: A quick look at the borrowing rates that I saw, 4.79% does that sound about right?

Shayne Elliott: Oh, probably, yes but it depends whether people want fixed rates or the floating and exactly what their terms will be.

Neil Mitchell: When did the borrower’s rates go up, and when did the depositor’s rates go up? That's what his [Chalmers'] criticism is. There's a gap between the two. What was the gap?

Shayne Elliott: I can only talk for ANZ, but we put our rates up about the same time, literally within days of each other, there's no big gap. I think what he's talking about is, do we put all deposit rates up? No. Because a lot of deposit rates are at call and don't earn interest and all those other bits and pieces. But our ANZ Plus rate we put up on Monday, and we'll put the home loan up on Friday the 12th.

Neil Mitchell: I saw online today a term deposit for .05%. That wouldn't still be right, would it? I think it was six months ago.

Shayne Elliott: It's probably an old historic product, as I say now, all of those term rates will be much higher than that. If you talk to your bank today they'll be higher.

Neil Mitchell: The bottom line is obviously The Treasurer is saying you're ripping people off. You deny that obviously?

Shayne Elliott: I don't think we're ripping people off at all. I think he's right to call out that we haven't always had the pricing on deposits and home loans go up together. I agree with that. As I say, our best deposit rates went up yesterday. The home loan rate, we advised people, but it's actually effective from Friday. So, he's right to call it out, but we're pretty confident we're doing the right thing on that.

Neil Mitchell: We have a lot of advice to shop around. Even to call your bank. Is it true, say I've got a home loan with you for x per cent, is it true that if I ring you I might get a better deal?

Shayne Elliott: You might, and you might not. The problem is at the moment when rates are rising, so it depends on when you got your home loan and what your circumstances are, absolutely people should have a right to ring up and make sure they're getting the best rate. But remember, it can go wrong as well. If you go through a process and you ask for a home loan to be reassessed. Let's say you go to another bank or whatever. If you make a credit application and get declined, that goes on your credit score. So, people have to be a bit cautious about those things and make sure there's still good credit and they can still afford the home loans that they've taken on.

Neil Mitchell: What enticement are you offering me if I'm at another bank to come to you?

Shayne Elliott: So, all the banks at the moment have got pretty healthy cashback offers, so you can get cash upfront might be $3,000, $4,000 depending on the size of the loan, assuming you're a good credit, assuming you've got a loan that's commensurate with the equity in your home and all those other things. But that's pretty standard around the place. But as I said, everybody assumes that they'll get a better deal by shopping around and it’s not always the case. It really depends on your own personal circumstances. When you got into the market, what you're paying, what your discount was and what your credit circumstances are today. Because when you go and shop around, we have to by law, we have to reassess you, and as of today. Not where you started your loan, but today. Based on the cost of living today, and based on the interest rates today, we assess whether that loan is still a good loan.

Neil Mitchell: But isn't it a bit rough on a loyal customer or an existing customer that to bring new customers in you're going to give them things that the loyal customer doesn't get? Be it a better interest rate or a cashback of $4,000.

Shayne Elliott: I flew to Sydney last week and I'm pretty sure there were people on that plane who got a better deal than I got, and we've been a loyal customer for a long period of time. You know, I go to the supermarket on Friday and I'm sure if you went on Thursday, there were things on special that weren't on Friday. That's just the way the market works. You know, people went in on the day they took out the loan and we put our best foot forward on that day to give people a home loan. Now, sure things change, maybe the next day it's more expensive, maybe it's cheaper. But that's kind of the nature. We're entering into a 30-year contract in most cases on those deals, and we can't have a deal that promises the best rate for the next 30 years, that doesn't work. And if that was the outcome, people wouldn't get loans.

Neil Mitchell: The power industry has been required to offer customers, regular customers, better deals if they exist, rather than keeping on existing deals. And you see that working in banking? I mean, you've been sitting on a particular interest rate for a period of time and there's that cheaper available. So, you contact the customer and say, do you want this deal?

Shayne Elliott: It's a different market, right? I understand the attractiveness of comparing their similarities, but they're not really. The nature of banking is very different, banks are enormously leveraged. We take in much, much more risk in terms of when we lend you money. So, if we're then saying the pricing on a loan is uncertain and we make some obligation to always be the cheapest in the market in the future, the whole pricing of that, the whole risk associated and to generate a return of that, gets really complicated from a bank point of view. I would suggest in that world, a lot more people won't get a loan at all, and for those who do generally the price in general would go up right across the board. Because let's just say we did that. Where do people think those discounts would come from? We don't print money. So they would basically either destroy profitability, the banks and then banks aren't viable, as they say, there's only one thing worse than a profitable bank and that's an unprofitable one. Look at what happens to banks when they're not profitable. They go bust. That's not a good thing. So, the only way it would work is pricing across the board would have to go up for everybody.

Neil Mitchell: What percentage of the money you loan would come from depositors?

Shayne Elliott: Oh, that's a good question. So it depends, I think it's complicated. So, our balance sheet is about $900 billion. That's our total, the loans we make and the assets we own because we own government bonds and all that other stuff. Our shareholder's capital is around $60 billion. Our deposits will be a few hundred million dollars and then the rest is from other sources. The Australian banks are unusual in the world. I think only Korea is the same. In that, the amount of deposits we get is less than the loans we make. In most countries around the world, banks take in more deposits than they lend and so what happens is the banks in Australia have to go and borrow that money on the international market. So we go into the US and Europe and we issue bonds and we borrow to make up the gap. So it's a little bit unusual. And that's why we say the RBA cash rate is absolutely relevant, but we don't borrow money from the RBA, we borrow from international markets and we have to pass those prices through to customers.

Neil Mitchell: And basically how you're putting food on the table is the gap between what you borrow that money for and what you lend it at, correct?

Shayne Elliott: Yes, absolutely, and then obviously we've got to pay all our costs of all the branches and all the services we pay, so yes absolutely. There are not a lot of fees anymore, in the old days, there would have been a bunch of fees at banks. Today they're pretty di minimus. So, yes, generally it's the difference between what we pay for money and what we lend it out at. Where it gets hideously complicated is, generally, the deposits we take are really short-term, overnight because you could take your money out tomorrow morning. And the loans we make are really long term, we're giving money to big corporates for five and ten years and obviously the homeowners potentially for 30 years. And that's the risk we take.

Neil Mitchell: Wage earners are certainly taking a haircut. They're falling behind. Bank profits are not, will they?

Shayne Elliott: Well, they are when you look at actually the return we get on our equity. So, if you look at every dollar of our shareholder's money we put to work, what's the profit we make on that? Well, you know, ten years ago that was like 18% and now it's 10%. So actually the returns on shareholders' funds, the return on the money has actually come down a lot. And so the banks are nowhere near as profitable as they used to be. Now the number we print is big, I understand that $6 billion, $7 billion, it sounds like a lot of money, it is a lot of money. But in order to generate that, we've needed more shareholders' money and that comes either from retail shareholders or from your super fund, having to put more money into the bank to generate those earnings.

Neil Mitchell: Well thanks for all that, I think of getting a first understanding of how the industry actually works or to some extent. So down to some basics, economic recovery; are we headed towards economic recovery or do you think we've got a couple of bad years ahead?

Shayne Elliott: We've probably got a couple of challenging years or certainly a challenging year ahead because there are just so many moving parts, and sadly for Australia and New Zealand where we operate, many of those things are out of our control, like the price of oil. Those things are supply chain issues. What's happening sadly in Ukraine for example. And those are having real impacts on the price of goods, supply of goods, how long it takes to get things, all that sort of stuff largely out of our control. But really momentus, they're big. And so, we're sort of getting bashed around as an economy. Some of that's actually been good, I mean, look at what's happened to the price of coal and the price of iron ore. That's generating lots of actual profits for Australia in general and the Government will be very thankful for that. But it means it's going to be volatile. It just means that we're getting bashed around and pushed around pluses and minuses and it's going to be hard to navigate.

Neil Mitchell: A lot of people are talking about the cost of living and cost of living pressures. I'm not sure that a lot of that is coming from increased interest rates on their home loan but are you seeing an increase in distressed borrowers?

Shayne Elliott: No. And one of the weird things is that we all understand there is a cost of living issue. Of course there is, I mean, I fill up my car too and I can see the difference. You can see the weekly grocery bills, we all get our electricity bills and we can see it. But on the other hand, in the last 15 years, households have never been stronger. Over the last two years in particular, but even more recently, households have been just socking away money for a rainy day. Savings levels have skyrocketed. People are actually really robust, their balance sheets are in good shape. At ANZ, we've got a million people who have a home loan, 70% of them are ahead on their repayments. So basically they have been paying more than they need to and of those, half of them are more than two years ahead. So that means when these interest rates have moved and we've had three moves, 70% of our customers didn't notice because they didn't have to pay more, they just continue to pay the same as they used to. So there are cost of living issues, but at the moment that is not converting into people under stress. We're not having people call our hardship line, we're not having people falling behind on home loans, in fact, those things at this point are remarkably strong. I'm not suggesting it won't get harder for some, but we're starting in a really, really robust space.

Neil Mitchell: And jobs, have you been able to fill jobs? Have you got vacancies?

Shayne Elliott: We do actually. It's a good lesson in how quickly things change. Here we are in 2022 talking about labour shortages when it's not that long ago we were talking about unemployment. Now, the shortages are not everywhere, but in certain areas particularly software engineering, data scientists, even our front-line bankers, the people who talk to customers. Yes, there are shortages. We've got hundreds of jobs open at the moment and struggling to fill some of them.

Neil Mitchell: The last question comes from a member of the audience. Can you envisage a situation where in future, where there are no bank branches at all?

Shayne Elliott: No. I can't see that. I think there will be less, and the reason there will be less is because people don't want to go to them. But I think there's always going to be a role, and I think the difference is what you do in a branch will change just like it already has. We've got a branch up here on Collins Street, quite a famous gothic branch, which is massive. I mean, I can't imagine how many people used to go into that thing, it's 140 years old and it's a beautiful thing, by the way. But those are not feasible today, people today need in and out and talk to somebody. So the nature of them will change, but they won't disappear. It's a bit like asking if we think cash will disappear. I don't think it will, it will reduce but actually, cash is pretty efficient when you need to do certain things, right? But that's just change. I think branches have a role for a long, long time to come, but they'll be very different branches.

Neil Mitchell: Thank you so much for your time. Thanks for talking to us.

Shayne Elliott: Thank you.

Neil Mitchell: The chief executive of the ANZ, that's as close as you will ever get to the world of banking explained and he did it in superb fashion I think. I hope it helped. Back in a moment.

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