

NAB CHAIR PHILIP CHRONICAN SPEECH

Governance Institute address, 19 April 2021

Title: Crisis – an opportunity to reset

Thank you and good afternoon - I'm pleased to be able to join you here today.

I would like to begin by acknowledging the Traditional Owners of the land upon which we are together today – the Gadigal People of the Eora Nation, their elders, past, present and emerging. I would also like to acknowledge any Aboriginal or Torres Strait Islander people here today.

Thank you to Andrew Leake, President of the Governance Institute for the invitation, and to Diane Smith-Gander, the Institute's Brand Ambassador. Your work in leading the Institute and its role in advocating and educating governance and risk management professionals in Australia is both important and valued.

And to our hosts today, Berkeley Cox, Chief Executive Partner, Australia and his team at King & Wood Mallesons for hosting this event.

It is great to be here today, coming together for a discussion in person – after having to reschedule this event in consideration of public health restrictions in January.

Today, I want to explore the opportunity that a crisis presents, to reset and build a stronger future.

COVID-19, and Australia's exemplary response to the pandemic, has led us to a critical moment in time.

While there have been tragic consequences in terms of individual lives and livelihoods lost, we have been relatively unaffected by the broadscale health and economic impacts that COVID-19 has wreaked in other countries.

The strengths of our system of government, our scientific expertise, our health system and of course, our economy, have served us well.

Despite some challenging, ongoing impacts in education, hospitality and tourism - businesses are again growing, and they are creating new jobs.

It has been a rapid rebound and it is NAB's view that the economy is now back to pre-pandemic levels of activity.

Now is the right time to consider what lies ahead, for the long term. Emerging from this crisis, we have an opportunity to take action to ensure Australia is stronger in the post-pandemic world.

Over the past 30 years, the Australian economy has benefited from largely uninterrupted economic growth, enabled by fundamental reforms achieved during the 1980s and 1990s.

During this period, Australian banks have been consistently profitable – including through the Global Financial Crisis. As an industry, we learnt the hard way that sustained success allowed complacency to creep into the way we operated.

The poor practices highlighted through the Royal Commission did not serve either our customers or our shareholders well. The Royal Commission was a necessary reset for the banking industry.

As we enter the post-COVID recovery phase, the biggest risk to Australia today is complacency; that our success in managing COVID-19 blinds us to future risks and opportunities.

It is the responsibility of leaders across business and at every level of government, to work together and ensure this is not the case. It is not a challenge for governments alone to solve.

Historically, recessions have at least provided the opportunity to implement reform and ‘clear the pipes’ for the next cycle of growth.

In this crisis, and in the lead-up to it, we have collectively accepted that doing better than other advanced economies, is the equivalent of doing objectively well ourselves.

While this recession wasn’t caused by financial system collapse or structural changes in the economy, we can – and should – use it to drive meaningful reform.

We should not forget, however, that productivity growth had started to plateau prior to the pandemic.

Australia needs to take this opportunity to comprehensively consider where our weaknesses lie in the long-term, specifically:

1. Business investment and growth.
2. The rate of improvement in living standards.
3. Australia’s place in the region amid geopolitical tensions.

The first step is to look under the bonnet and recognise what’s not working as well as it should – and acknowledge any band-aid fixes that won’t last.

To get businesses investing and to get Australia's economy moving we need to make it simpler and faster to do business in this country.

The banking sector plays a critical role, extending capital to help new business to start up, or existing ones to grow – particularly so for NAB, as Australia's biggest business bank.

However, broader action is needed to launch our economy into the next era of growth.

Firstly, encouraging business investment and growth.

Changes to economic policy settings are needed today to encourage business investment in Australia and promote growth and job creation.

Despite a recent post-COVID rebound in business capex, the trend over the longer-term, since the GFC, has seen business investment fall to slightly over 10 per cent of GDP¹.

The biggest barrier to business investment is business confidence. Business leaders need to trust in the underlying strength of the economy, and a clear and consistent set of rules, in order to confidently commit to long-term investment.

Australia needs a more efficient and competitive tax and regulatory system.

Small business – the backbone of our economy – is spending too much time navigating multiple levels of government, holding back productivity and growth.

Research commissioned by NAB shows that excess red tape costs small business \$9.3 billion every year and tax compliance costs them 225 times more than it does for a large business.²

We need to keep looking for ways to make it easier for businesses to find the right people, with the right skills.

The Government's work on bringing manufacturing, financial services and health sector skills is a helpful start.

We welcome measures such as tax incentives to encourage businesses to invest, and wage subsidies to create more jobs.

The JobMaker and SME Recovery Loan schemes are good examples of support available for businesses that see long-term growth potential.

Now is the time to do more, at every level of government; to remove hurdles, streamline the bureaucracy and make our systems easy to navigate.

¹ <https://www.rba.gov.au/chart-pack/business-sector.html>

² <https://business.nab.com.au/wp-content/uploads/2020/07/Supporting-Economic-Recovery-What-we-can-do-for-Small-Business-2.pdf>

Business too can act – and there are many who are, by boosting capital deployment and increasing their own productivity.

Secondly, improving living standards.

The Lowy Institute recently highlighted the rate of improvement in living standards has dropped. In the ten years to 2008/09, average income per head increased by one fifth. In the next ten years to 2019, it increased by only one tenth.³

Upward pressure on real wages is unlikely until unemployment gets to around 4.5%. Based on the current unemployment rate of 5.6%, that means 154,000 jobs need to be created before we see wage pressure.

A key determinant is overall productivity improvement; producing more with the resources and capabilities available.

We also need to look strategically at the shape and flexibility of our workforce – and the education and training systems that support it.

The pandemic has accelerated an already rapid change in jobs in this country – and we must be agile to remain competitive.

For example, within NAB we moved more than 1,000 additional people to our frontline teams, because that's where our customers needed the support.

A return to skilled migration will help close the gap and give business access to the capabilities they need to grow.

This needs to be achieved at a level that is supported by infrastructure investment and housing stock availability, particularly in Sydney and Melbourne – where we expect further house price growth for the remainder of 2021.

The investments being made by state and federal governments in infrastructure will go some way to addressing the needs created by rapid population growth in recent years.

Shovel-ready projects are also creating jobs and providing an immediate boost to the economy while taking advantage of ultra-low interest rates.⁴

Thirdly, we must actively support Australia's place in the region amid geopolitical tensions.

I am a strong advocate for Australian business leaders being more aware of, and more immersed in, what is happening in Asia.

³ John Edwards: Reconstruction: Australia After COVID
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https://investment.infrastructure.gov.au/infrastructure_investment/infrastructure_investment_response_covid-19/shovel_ready_projects.aspx

Even with current trade tensions, China will continue to be Australia's largest trading partner.

In the 12 months to February, two-way goods trade between Australia and China was nearly four times that of trade with Japan, our number two trading partner.

It's an extraordinarily significant trade and investment relationship – for both sides - and it would take something quite remarkable to happen for China to no longer be our number one.

There are much broader opportunities for Australia in the region. There is substantial growth in Asia, and Australia is a key partner for others in the region. That's the basis of a healthy exchange of value.

One of the impacts of the US-China trade tensions and the disruptions of the early pandemic is changes to supply chains.

Whether temporary or not, a shift in manufacturing from China to other Asian economies has occurred, which could increase demand for Australian goods and resources in those countries over the long term.

The pandemic has also underlined the need to improve domestic resilience and reduce risk, through strategic stockpiles and multiple supply chains.

Local manufacturers have proven agile – pivoting to producing things like hand sanitiser and PPE to slash the logistics time and fill the demand that could no longer be met by China.

These newly formed local supplier relationships have potential to become enduring, as end users recognise the benefit of faster, more tailored and easily accessible solutions.

But there is more to do. COVID has shown that having domestic capability in areas of medical research, pharmaceutical production and medical diagnostics is critical.

Australia must be proactive in managing future risk. More strategic planning and investment is needed to bolster the scale and sustainability of essential industries and to build domestic strength in these areas

There is so much more Australian business can do to capitalise on our proximity to Asia. We have to be thinking long-term when it comes to engagement and trade in the region.

In closing, Australia's response to the post-COVID landscape will define our success over the next 10, 20 years and beyond. All leaders have a responsibility to consider their decisions in this context.

In an organisation like NAB, that's been around for more than 160 years, our current leaders are merely passing stewards. This is frequently brought home to me when I meet some of

our family business customers who have been with us for three, four and even five generations.

The long-term perspective these customers have of our business is remarkable and reminds us of our enduring purpose.

Recognising the longevity in the decisions and actions we take today will help us to empower the next generation, not burden them.

Australian business with Government, can use this moment to capitalise on our performance during the pandemic, to build a much stronger future.

Thank you. I look forward to your questions and further discussion