



QUEENSLAND
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BETTER IDEAS

QUEENSLAND FINANCE
LEADERS' LUNCH

Better Ideas

Queensland Finance Leaders' Lunch

Thursday 27 April 2023
12 Noon - 2.30pm
The Hilton, Brisbane
190 Elizabeth St, Brisbane City

PANELISTS:



LEON ALLEN
Chief Executive Officer,
Queensland
Treasury Corporation



SHAYNE ELLIOTT
Chief Executive Officer,
ANZ



MARYANNE KELLY
Under Treasurer,
Queensland Treasury



STEVE JOHNSTON
Group Chief
Executive Officer and
Managing Director,
Suncorp Group



PETER LOCK
Chief Executive Officer,
Heritage and
People's Choice



KYLIE RAMPA
Chief Executive Officer,
Queensland Investment
Corporation

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CHRIS ROGAN
Brisbane Managing
Partner, PwC

MODERATOR

Snapshot

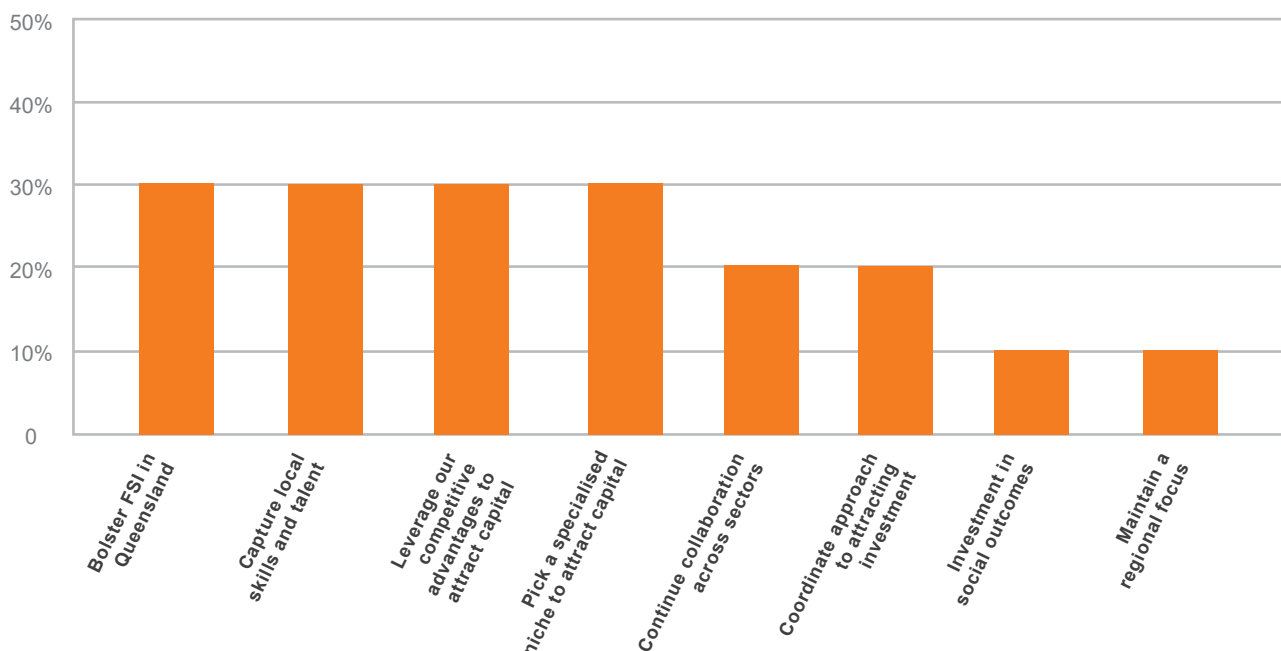
The key theme from the Queensland Finance Leaders' Lunch was the role of banks in the current economic and financial environment in working through a high inflation and interest rate environment. Queensland will be well positioned to benefit from a number of investment and economic opportunities over the coming decade if we can leverage our natural advantages to attract and retain talent and capital. However, a key challenge is the global macroeconomic environment of high interest rates and inflation.

The discussion considered how Queensland's natural advantages in being highly liveable and benefiting from a diverse economy of many traditional industries, must be leveraged to attract capital and help to grow our financial services industry – not only in Brisbane but also across the regions.

Summary of Comments

- Capital goes where it is welcome, and Queensland must attract investment into the State by maintaining a strong talent pool and highly connected infrastructure to support this. To do this, we must leverage our position as a growth story, a lifestyle superpower, ensuring that the economic and social momentum of strong jobs continues due to our liveability and affordability.
- The State can further bolster its support for the financial services industry by developing a strategy with industry and universities, which would reflect the Government's support of the industry and commitment to its growth.
- This would support the position of Queensland as a challenger state for the industry. Since working flexibly, people are working where they want to live. This enables us to keep the pressure on Sydney and Melbourne by maintaining a strong workforce not only in Brisbane, but also in our regions. Maintaining a challenger mentality will also be critical in developing traditional industries, which may extend into finding a new specialty for the State to attract talent and capital to.
- Coordinating the above approaches will likely support investment, forming a stable investment environment in which we can make the most of opportunities, including those across the regions and which focus on social outcomes.

Summary of Top 3 Panel Ideas



Comments from Panel



Chris Rogan

- Our panel session today will explore the significance of the financial services sector in Queensland in the national context and explore how the leading organisations in this sector are responding to challenges and preparing to take advantage of the opportunities in Queensland over the next decade.
- There is a great history of strong brands and organisations in Queensland which are represented by the excellent leaders on the panel here today. The sector is a strong driver of the State's economic output and skills and career development. It is a large sector - the Queensland Treasury estimates the combined financial and professional services sector is approximately \$42 billion in economic output and over 250,000 employees in FY20, and the ABS indicates the financial and insurance services sector contributed strongly to Queensland's GSP growth in FY21.



Kylie Rampa

- There is tremendous opportunity in the Queensland market following the Covid pandemic. The economy has grown 10% compared to pre-pandemic, with 20% more jobs and sustained employment growth, driven by immigration, which is yet to peak. We're still seeing opportunity emerge in the lead up to the Olympics which will continue to drive immigration and jobs growth. Immigration into State has seen a significant flow of 114,000 people per annum moving to Queensland.
- These strong fundamentals are really going to provide a strong backdrop to support significant growth in the economy and for the State over the next decade.
- There has also been a lot of reorganisation in the funds management and financial services industry here in Queensland. For example, the merger of QSuper and Sunsuper to create Australian Retirement Trust, which is the second largest superannuation fund in the country. We've also seen the merger of LGIASuper and Energy Super to create Brighter Super, reflecting continued growth more generally in the superannuation sector here in the State.
- The collaboration between organisations such as QIC and QTC and the superannuation industry are also creating a significant investment focus and greater investment opportunities in Queensland.
- The attraction of global talent is critical to the future of the State. The labour market has changed drastically compared to pre-pandemic. Queensland used to be blessed with a workforce who wanted to live and work here due to the State's great liveability, but that is no longer the case – as people can live here but work for companies based elsewhere. Despite this, it can still be beneficial for the State because we're able to retain a local workforce. This gives rise to us being able to recruit great talent into the market because they really like what Queensland has to offer – liveability, affordability and a great lifestyle. Queensland must continue to not only attract talent, but also retain it, rather than have a workforce which prefers to move to Sydney and Melbourne.
- Additionally, Queensland has a unique set of areas in which it has an international comparative advantage. These include renewable energy, electrification, rare earth minerals, carbon reduction, high tech manufacturing and natural capital. These all present a strong growth opportunity for the State and will attract further investment moving forward.

Comments from Panel

- The investment environment also benefits from collaboration between the business community and government. This has resulted in strong growth in attractive investment thematics. For example, QIC has managed funds in critical minerals and is supporting new industries through a venture capital development fund, a business investment fund and an enterprise acceleration fund to target different stages of business growth. Queensland is clearly seeing significant, high-quality private equity opportunity in these areas.
- QIC has also created the Housing Investment Fund to drive investment and facilitate institutional investment into social housing, collaborating to develop an innovative structure between government, fund managers and a major capital partner. We have also created the Queensland Future Fund which is channelling further investment to benefit the State into the future.
- The clear challenges are around the very near-term pressures from high inflation and the impact of increasing interest rates. This will have a short-medium term impact and is increasing the required return on capital for investment, which does have a big impact on all of these initiatives, dampening risk appetite for capital investors and placing a real premium on liquidity as they navigate their own portfolio challenges.
- Queensland must continue to focus on social infrastructure, affordability and maintaining a high-quality lifestyle in the State because the stats show that providing jobs goes alongside providing affordability and a compelling lifestyle - this is critical to the future economic success of the State.
- If we can keep up with global developments and remain ahead of the curve on significant global thematics, Queensland will be well positioned to attract capital, creating a strong investment thematic in the State, and driving diversification for the economy.



Leon Allen

- Queensland's opportunity will lie in creating a coherent direction in order to plan for and invest in the thematics that Kylie just spoke about.
- Queensland is a growth story. This extends beyond the huge investment going to energy, social services, economic infrastructure, and the Olympics; our growth story is driven by our economic dynamism around our attractiveness which draws people to the State and maintaining our position as a challenger brand across Australia.
- Within financial services, there is broad opportunity across banking, insurance, asset management, funds management and treasury services and through QTC's borrowing and financial advisory in Queensland. We have seen strong capability and scale of businesses across the State, which should be leveraged to further support our growth story.
- Queensland is a lifestyle superpower. While there are challenges to managing growth, this lifestyle should be leveraged to drive our economy. This will help to further support the narrative around Queensland and could also be used to help drive innovation as a concept in order to position Queensland as a global innovation hotspot.
- We must also leverage our strong education sector to support the collaboration between industry and government to further support creating a single, coherent voice to attract investment.
- These considerations will help to inform Queensland in creating a strategic vision, finding our comparative advantage as a finance sector, and indicating where we should lean in and invest.

Comments from Panel



Shayne Elliott

- ANZ is 190 years old and employs about 50,000 people today. We're in 32 markets around the world – meaning most of our people don't live in Australia. The bank's balance sheet is approaching \$1tn dollars, with about \$60 billion in shareholder capital.
- There is lots of opportunity to deploy capital and invest for growth. In considering these markets in our planning cycle for the year ahead, these markets will all provide ample ideas and opportunity. While Queensland also provides lots of opportunity, the State must carefully highlight how we can really capitalise on this opportunity above the rest.
- To achieve this will require understanding Queensland's natural advantages to inform how we can maximise the opportunity and what next steps can be taken. To do this requires three considerations.
- The first is that capital flows where it is welcome – we must create a supportive environment which, for finance, requires technology and people. If the State can support these, it will attract investment. The second is that this requires a large, skilled talent pool which is not only generated within the State but can also be retained. The third is infrastructure and ensuring both digital and physical connectivity – enabling businesses to connect with the rest of the world. Together, these are the drawcards which maximise opportunity to attract capital.



Steve Johnston

- Insurance is facing one of the biggest challenges in a generation – climate risk. The industry is dealing with the impacts of climate change, including the increasing frequency, length and severity of weather events. Suncorp has processed about half a million claims and spent billions of dollars to rebuild communities across the east coast of Australia over the past few years alone. Recently, New Zealand had two one-in-250-year events within two weeks, resulting in tens of thousands of claims worth billions of dollars in areas that weren't previously considered high risk flood zones.
- This is resulting in a significant disruption in global reinsurance markets. Ten years ago, the reinsurance market looked towards Australia and New Zealand to diversify their risk, supporting their credit rating. This had been undertaken instead of focusing on primary and secondary perils, resulting in increasing risk and claims over the past decade. This has further resulted in a significant transfer of risk from reinsurers to primary insurers, some of which is ultimately being passed on to consumers.
- We must urgently address the challenge of climate change in a systemic and comprehensive way. Insurance will always be needed but it will become increasingly difficult for insurers to provide affordable insurance, particularly in areas where people have been allowed to build houses where they should never have been built. This presents a challenge throughout Queensland where flood risk is very high across many metropolitan and regional areas. Despite this, Suncorp will continue providing high quality underwriting, weather science, and undertake proactive work to understand the risks of climate change to ensure we continue to deliver highly sophisticated claims management processes.

Comments from Panel



Maryanne Kelly

- The finance and professional services sector is a significant contributor to the Queensland economy, with an estimated \$42bn of economic output, and employment of over 250,000 people.
- Following Covid, Queensland's economy and labour market are almost nation leading. This provides a solid platform to build economic opportunity and attract investment. State final demand growth is approximately 10.6% after Covid, above the nation's average of 9.2%. We have seen the largest growth in the nation in employment with over 228,500 more people employed since before the pandemic. This has resulted in trend unemployment of 3.8% in March, which is amongst the lowest rates seen on record across the State. This includes regional statistics of 4.1% in Cairns, 3.38% in Central Queensland, 2.5% in Mackay and 2.2% in Townsville, which is a massive turnaround from a few years ago.
- This is supported by strong interstate migration, as well as international migration – which has seen a net increase of 42,000 people in the first three quarters of 2022.
- Queensland's trade is also incredibly strong – with overseas goods exports increasing almost 50% in the last 12 months to February to about \$135.8bn.
- We've seen these strong numbers despite the challenges posed by rising interest rates. In fact, taking these figures together, we have seen the strongest business conditions of all states. These metrics will continue to improve, highlighting Queensland's strength as a great place for businesses to invest.
- The International Monetary Fund's latest outlook has the global economy growing at 2.8% in 2023 and 3% in 2024. This is a downgrade since the January outlook, reflecting a heavy skew to the downside risks.
- While our economy is strong, we are not immune to these global challenges, which extend across the supply chain, skills and labour market, and inflation and cost increases.
- Queensland Government is responding to these challenges by maintaining a strong dialogue with industry to understand what we need to do to ensure the economy continues to grow. This includes prioritising major projects.



Peter Lock

- The recent merger of Heritage and People's Choice has made it the 10th largest domestic bank, with a 150-year history and origin in Toowoomba.
- Queensland has an opportunity to be a challenger State, providing opportunity and natural advantage in financial services for the State to challenge Melbourne and Sydney as Australia's financial centres. We are the home of Suncorp and Bank of Queensland, insurance companies like Youi, superannuation and mutuals like Heritage and People's Choice and Great Southern.
- A unique characteristic of Queensland is its broad geography, providing the ability and strength to provide a regional focus. This is true for Heritage and People's Choice, being headquartered in Toowoomba. This is one example of investment in regional communities that creates white collar jobs and supports the broader regional community. Because the financial services sector has a responsibility to service the needs of the whole State, having this focus allows for better outcomes in regional communities and supports investment in this unique strength of Queensland.

Comments from Panel

What is your aspirational view of where the Financial Services industry could be in Queensland beyond 2032, and what do we do we need to do to get there?



Peter Lock

- We must position Queensland as a financial powerhouse. This could see the government appointing a Minister for financial services, as this doesn't exist in the current Cabinet.
- Highlighting the importance of the financial services industry (currently fifth largest industry for Queensland) for the State would also highlight its importance.
- We also require the infrastructure and connectivity to support this industry, given the benefits this would have for attracting and retaining a skilled workforce.



Maryanne Kelly

- We have a number of transformational opportunities happening right now in Queensland, namely the Brisbane 2032 Olympics and Paralympics. This will benefit not only Southeast Queensland but also the rest of the State. Another is the Queensland Energy and Jobs Plan, which will transform the entire electricity grid which will drive investment to support 22 GW of renewable energy, 7 GW of pumped hydro and 1,500 km of transmission.
- To achieve this, we require transformational policies and collaboration between government, the private sector and communities. There are several initiatives currently underway to support this. This includes \$520m from Queensland Treasury invested in industries with other investors on major projects. This is an example of our significant investment facilitation providing investment assistance for bespoke commercial opportunities.
- A recent example of this was implemented with Fortescue Future Industries in October to deliver one of the world's largest hydrogen equipment manufacturing hubs in Gladstone. Another example is the Queensland Pacific Metals Tech, which received significant investment project status to support a \$2bn energy chemicals hub in Townsville. The Housing Investment Fund mentioned earlier is another example of collaboration, between Australian Retirement Trust and QIC, and Brisbane Housing Company to deliver a pipeline of 1,200 new social and affordable homes.
- These reflect the strong engagement between government, the private sector and communities which is driving investment in our State to help transform where we go.



Steve Johnston

- The pandemic has been a game changer for Queensland. This has permanently changed the way people work today. As a result, people are now choosing to work where they want to live.
- For many years, Suncorp has positioned itself proximate to universities, where it has attracted talent. We, along with other financial services companies, are competing for tech and finance staff in a tight labour market. Given the flexibility to work remotely, we need to ensure we have the assets and attractiveness to find and retain talent. Organisations are incubating and fostering their workforces given the current market conditions, allowing them to work where they want to live. This is a huge opportunity to take advantage of, which will require building an ecosystem of capability in financial services to capture all parts of the market.

Comments from Panel



Shayne Elliott

- Many markets and cities have plans to grow the financial services sector – this has seen the rise of Dubai and the fall of Bahrain, the rise of Singapore and the fall of Hong Kong and also the rise of Boston and the fall of New York. These experiences indicate two observed models.
- The first model is that implemented by Singapore, which has no natural advantage, so must rely on making itself the most attractive place to do business. This has been successful given Singapore's high degree of coordination. They have jointly planned around talent, having a supportive tax regime, infrastructure, and a strong but welcoming regulatory regime to create a highly attractive market for capital. For example, the Singaporean regulator – the Monetary Authority of Singapore - has a dual mandate, and must balance prudential soundness and growth, given their dependency on this sector. However, Singapore is incredibly expensive to operate at scale. Despite this difficulty, they have still managed to attract significant capital, proving the benefit of their coordinated, ecosystem approach.
- The second model is to pick a competitive advantage. While directly competing with Melbourne and Sydney as financial services centres is one approach, the other is to pick a niche which Queensland can be better than other centres at. This was adopted by Boston, which overthrew New York to become the funds management centre of the United States.
- For Queensland, we should consider where the future of banking is going and what the industry will look like. This could include finding niches in renewables or sustainable finance, which will radically transform our industry. Having a core business around such niches would provide a strong advantage.
- Likely, a combination of picking out what Queensland can do better than anybody else, and having a coordinated, planned approach is likely the best start to developing the building blocks needed to take advantage of these big opportunities.



Kylie Rampa

- Having an international competitive and comparative advantage is really critical for Queensland. To do this, we must develop opportunities for global and domestic capital to be allocated where Queensland has a unique position. This is relevant in building new industries and developing traditional industries.
- The global example of the Inflation Reduction Act highlights the United States' focus on creating a compelling competitive advantage, developing new, onshore manufacturing facilities and being a first-mover in this attempt to re-localise. Similarly, Queensland's green hydrogen opportunity will require us to build the industry and technology up to the point at which we can take advantage of the investment this attracts.



Leon Allen

- The Queensland Finance Council will launch a paper on "Opportunities for Queensland's Financial Services Sector" in May 2023, which is a great starting point. Even with a strong plan, we can't expect to leapfrog other markets and become a global superpower. Queensland must be smart about what we actually can do well.
- Once this thinking and data has been articulated in a strategic plan, Queensland will still support diversification across industries. The plan will therefore need to be supported through other initiatives to ensure the support of new sectors, providing a breadth of opportunity across the State.

Comments from Panel

What is good and bad about being headquartered in QLD?



Kylie Rampa

- I grew up in Queensland., I went to school here, I went to university here and I left 27 years ago and worked in Sydney, Melbourne, Chicago, New York. I came back last year after being away for 27 years and it's a very different city to what I left and a very different city to what I grew up in.
- Brisbane has an incredible advantage, the opportunity is just the energy of the city. The city is really energised, there's a great opportunity for the youth, we have to look through the Olympics, over this next decade it will give rise to even, more interesting opportunities for people.



Shayne Elliott

- ANZ isn't headquartered here but believes in the growth story of Queensland and supports this through its investment. Having the youngest demographic and being a highly diversified State presents a significant opportunity for investment. The State is a platform for growth, and as discussed, ANZ's strategy is built around the acquisition of talent, relying on the strong university sector in the State.
- However, despite many graduates leaving with great talent, they are leaving for opportunities elsewhere. We want to support the State and create opportunities which will attract and retain this talent. This is one of the many challenges which will need to be addressed moving forward.



Peter Lock

- Being located in Brisbane allows businesses to take advantage of the talent which is naturally attracted to many parts of the State – not just the beach. People are attracted to Toowoomba, reflecting the breadth of opportunities across the regions too.



Maryanne Kelly

- Queensland has a diverse economy and is endowed with amazing natural resources, which have supported very strong traditional industries and given us many opportunities. These will shift going forward, growing into new industries such as green energy and critical minerals.
- Critically, we are also well connected. We have six international passenger terminals, a great rail and road network to connect our highly liveable cities and regions all over the State – from the Southeast, the Gold Coast and Sunshine Coast, to Cairns, Toowoomba and the western regions.
- We also have some really incredible attraction in the State's investment programs – supported by QIC, QTC, Queensland Treasury, and Trade and Investment Queensland.
- We, of course, also have the brilliant Queensland weather.



Leon Allen

- Whatever the disadvantages were, they are a lot narrower these days, so it's all upside and just about then making the right calls about where we invest.

Comments from Panel

What has the rising interest rate environment meant for your business?



Shayne Elliott

- We are currently seeing a crisis of excess opportunity – and too much demand, globally. This is the opposite of what we normally see in crises.
- Central banks around the world have reacted to this with the one tool they have - interest rates, which has resulted in the fastest increase in interest rates globally in history. Businesses have suffered because of this war against inflation. While this is impacting small businesses and households, banks are better able to withstand this given their ability to weather the entire cycle.
- Banks are structured in a highly regulated way – to be well run, well balanced, and highly diversified, which supports their ability to withstand these conditions. High rates will therefore mostly impact customers.
- There are many businesses which have never experienced economic conditions like these, so many of them are unprepared to handle these rates. ANZ has spent significant time nurturing customers through this.
- Fortunately, savings are high and business gearing is at all-time lows, which means they're in a very strong position. However, we will still likely see casualties from those with high debt, or no pricing power, as they can't pass on increased costs. This is being seen in the construction sector, from poorly structured banks like Silicon Valley Bank and those with business models that are not set up for this environment.
- With rates as high as they are, and excess demand in the system, the concern is longer-term inflation. With high demand, more infrastructure, more projects and economic activity, and public spending increasing in defence, social programs and the energy transition - the problem will get worse. Most of these are driving economic growth but are insensitive to interest rates. With the 2032 Olympics coming up, the necessary developments will be delivered no matter the interest rate, meaning more expensive outcomes.
- The problem with these economic activities being immune to higher rates is that the costs will be borne by everybody else.
- This will require State and Federal Government support and policy intervention because interest rates will be unable to solve this problem – and this is happening globally.



Peter Lock

- Interest rates are unlikely to have peaked yet and will likely see a couple more increases.
- In a rising interest rate environment, it is easier to run a bank. But the signs of stress will come through if buffers start declining.
- It is important to maintain consistent wholesale lending and not cease completely. As long as banks are helping customers in these times, they will stay in good shape.



Steve Johnston

- The halting and then restarting of the economy during and after Covid was always going to have a detrimental outcome. This is playing out in inflation and higher interest rates now.
- For households coming off low interest fixed rate loans and facing increasing insurance premiums and a higher cost of living, these times are difficult.
- While there won't necessarily be an interest rate cliff, the largest issue is around employment. Fortunately, we haven't seen a softening in the employment market yet, but we must watch this over the next 12-18 months. It would be a great achievement to get through this cycle without an increase in unemployment.

Audience Questions

The current tranche of anti-money laundering and counterterrorism finance legislation being considered by the Federal Government will be a significant challenge for the workforce in the Queensland finance sector. This will also impact real estate, law, and accounting industries. What can the sector do to better prepare for this to ensure adequate skills and training for the workforce to meet this?



Peter Lock

- AML/CTF is a huge issue, and the associated obligations have a significant impact on banks and insurers. There is a lot of compliance and reporting through AUSTRAC, which will be faced by real estate agents, accountants and lawyers under Tranche two; however, this is necessary albeit complex legislation.
- While there may be lobbying against this, it is ultimately in the national interest, and is an important piece of legislation that should be supported.

Do you think that we are doing enough at a State Government level, and also in the private sector such as through FinTech in Queensland to take full advantage of opportunities for growth? With international companies entering the Australian market by coming to Queensland in some cases to, to base themselves, I feel like we are not promoting ourselves well enough on a national stage for the opportunities in Queensland. What can we do to help with that?



Shayne Elliott

- Everywhere in the World has a strategy to support becoming the next FinTech capital. The challenge therefore becomes finding your point of differentiation. It is very difficult to outline exactly what is needed, but this generally comes through planning, foresight, ambition, and a funding strategy to really support the investment story for entrepreneurs moving to Queensland.



Kylie Rampa

- Targeted forums or conferences to bring the global sector together in one place and educating them on the opportunity in Queensland is quite demonstrable in attracting businesses.



Peter Lock

- Industry must drive a supportive policy environment and push back on harmful regulation. To the extent this would provide a new dimension of opportunity to the industry, we should work to achieve meaningful and supportive objectives through policy and regulation. This can achieve beneficial developments, like that in anti-money laundering discussed earlier, which provides a rigorous framework for the collection and storage of data available to financial institutions, real estate agents and other parties in the system.

Audience Questions

There seems to be a lot of interest in the funding of banks. What does this comprise of in the current environment?



Shayne Elliott

- Australia is one of the only major markets that looks like South Korea – we lend more than we take in deposits. While in most markets' banks take more deposits than they lend, Australia lends about \$100 for every \$80 in deposits – with the gap being funding by the wholesale international markets. Because of this, Australian banks are some of the largest borrowers in international financial markets globally.
- This occurs because Australia runs a current account deficit, and the banks end up taking on this burden. Although this gap has narrowed since the GFC, we are very strongly regulated when it comes to liquidity ratios. This regulation ensures stability and strong diversification for our banks.
- This can be contrasted to Silicon Valley Bank, which suffered a classic bank run, which because of the monitoring and stability of Australia's system, is unlikely here. For example, this is also supported through the \$250,000 deposit insurance scheme. This has ensured stability over the last 15 or so years, even around the SVB bank run, showing the strength of our system.

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