



FSF Conference

**Covid – its impact on the
sector - non-bank perspective**

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26 November 2020



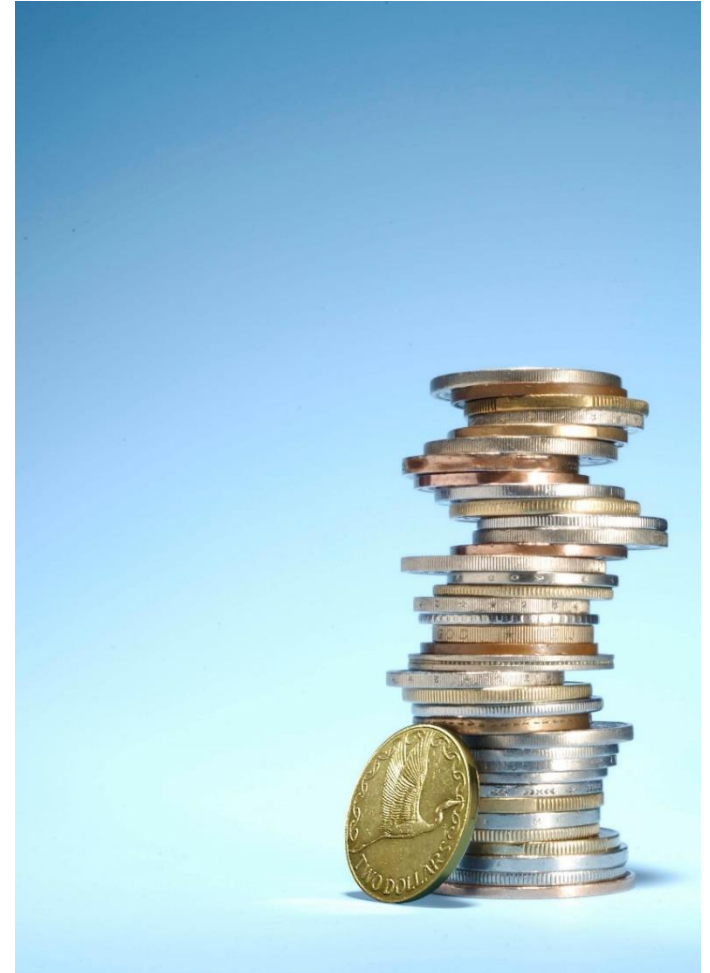
Covid from a non-bank perspective

- What a year 2020 has been
- Who would have seen this coming
- How has it affected the non bank sector
- How have we done as a country, the non bank sector, individually
- What should we consider going forward



Covid from a non-bank perspective

- What have we heard so far from the FIPS interview and from our clients
- The 2020 interviews have focused less on loan growth, interest margin and funding sources
- And more about
 - COVID
 - work from home
 - learning to manage in the new norm (whatever that might be)
 - estimation uncertainty
 - New Zealand's resilience.... so far
- People and communication have featured more than before



Covid from a non-bank perspective – lockdown impacts

- A lending halt in lockdown (L1)
- Bounce back post lockdown (L1)
- L2 worse than L1 in many ways – no one wants a L3
- Initially funding dried up then freed up, base rate fell, spread increased slowly returning to normal
- Customers enquired about relief, but not all took it, even amongst those that did many ended it early.
- Lending halt in lockdown/early repayment resulting in falling loan books



Covid from a non-bank perspective

- New Zealand and New Zealanders good at “pivoting” – taking out cost – individually at the entity level and across the economy
- Many found savings through – no overseas travel, less work travel and less eating out, less entertainment
- The damage done to certain sectors has been immense – Aviation, Inbound Tourism, Inbound Education
- But the substitution to others has been significant (home renovation, vehicle sales, domestic tourism)
- Government support critical to getting where we are today – whether you think it is right or wrong or could be done differently
- Bank support for the sector has been noted as good but not excellent
- Feeling that the non-bank sector hasn’t had the tools/support from Government to the extent banks have
- Lack of understanding of the role non-bank sector plays in our economy and too much focus on its relative size - size of sector doesn’t equal importance to economy

Covid from a non-bank perspective – working from home


- We all achieved it – quickly (within two weeks), it has become part of life now but questions remain
- How to retain firm culture
- Training / mentoring
- Increased communication
- Tailored to the individual and the firm
- Need to be able to monitor KPIs
- Mental health aspects
- Where to next 2 or 3 days a week in the office, 3 or 2 at home

Covid from a non-bank perspective – IFRS 9 credit provision

Big difference in impact for a December vs March vs June vs September balance date

- The models don't work
- Compensated for by overlays
- Forecasting challenges what does the future hold
- Initial estimates of impact more dire than what we have seen..... to date
- More ? / worse ? to come – how far through the cycle are we
- Impact of further Global lockdowns

Covid from a non-bank perspective – uncertainty re future estimates



- Going concern
- Impairments
- Liquidity
- Have we seen the true impact or are we shielded by — Government subsidies, better health outcomes, money traditionally spent overseas being spent in NZ, we haven't been through a deflated summer economic impact effected by COVID yet
- Supply chain issues just starting to impact businesses now and look set to for some time

Covid from a non-bank perspective – two different stores

- Confusion and “false” hope from counterintuitive scenarios
camper van companies
rental car companies
domestic tourism
- House prices increasing – improving confidence
- Retailer stock swings (March vs April vs July vs now)
- Early repayment
- Q1/Q2 next year – timing delay



Covid from a non-bank perspective – restructure/pivot

- Digital restructuring of businesses – sped up / enabled / forced by COVID
- New economy – click and collect
- Need for digital channels – now!!
- Household budgets reshaped during lockdown
 - the very wealthy
 - the very poor
 - those in the middle

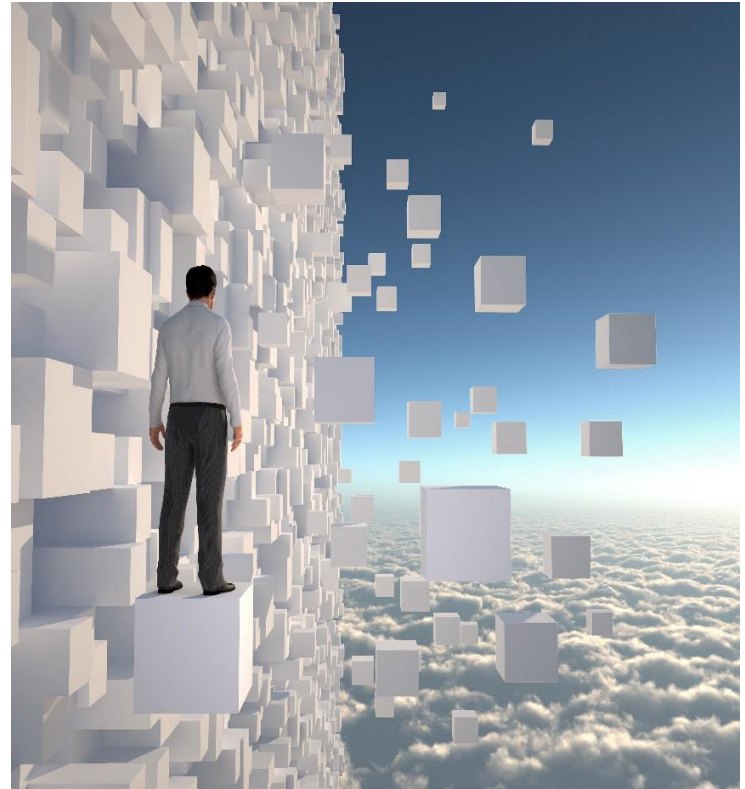
Covid from a non-bank perspective – risk vs return

- There is still a sea of money looking for a home / return
- Rise of high return propositions



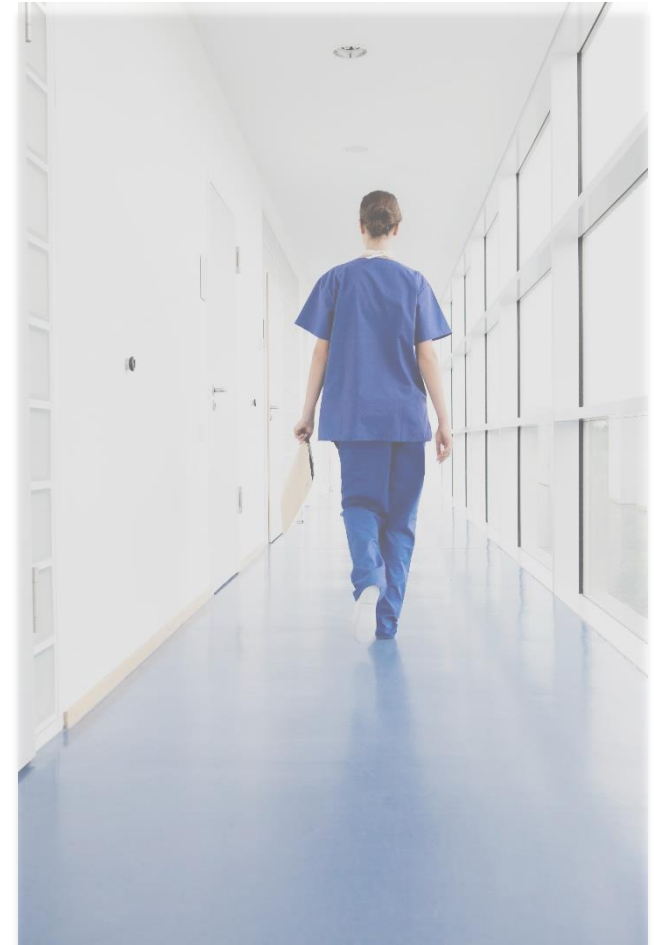
Covid from a non-bank perspective - regulation

- The gearing up / staffing up by the regulators
- The honeymoon period of extensions and wait and see about to be over
- Enforcement set to rise
- Unfairness of regulation bank vs non bank sector
- Cheap funding to the banks allows them to use increased equity in home loans to disintermediate the non bank sector



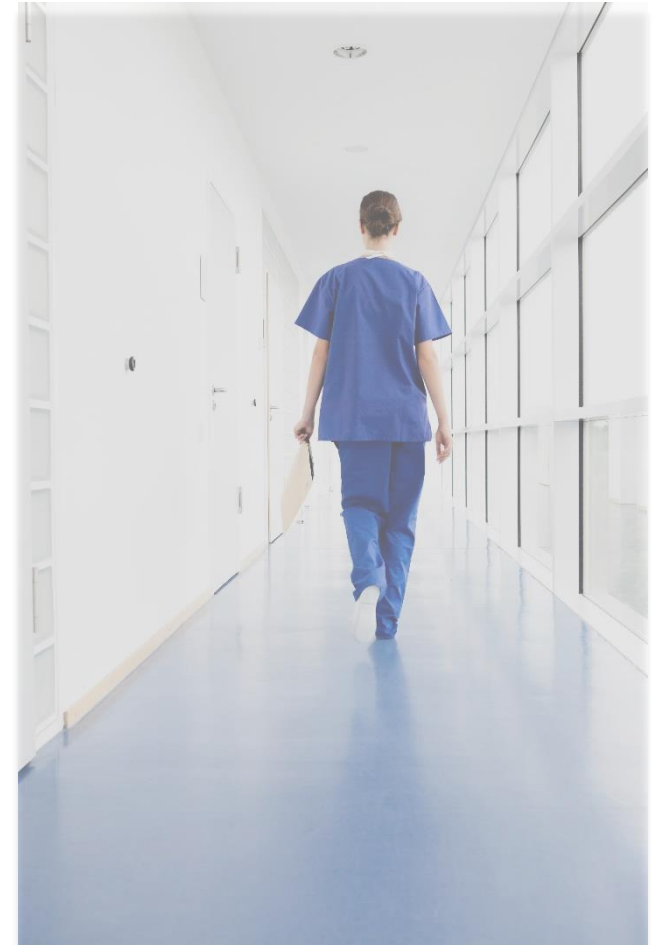
Covid from a non-bank perspective – challenges to come

- Predicting the future what will happen both globally and nationally and both economically and around a vaccine and when it might arrive
- The return to normal how that plays out for
 - Liquidity
 - Credit provisioning
 - Supply chain issues and flow on effect
 - Available capital
- What will the true impact on households and businesses be in Q1 through Q3 next year when the Government support has worn off, people have lived off savings and we are through the Xmas break
- How long will our economy take to restart in areas like tourism, aviation, foreign education



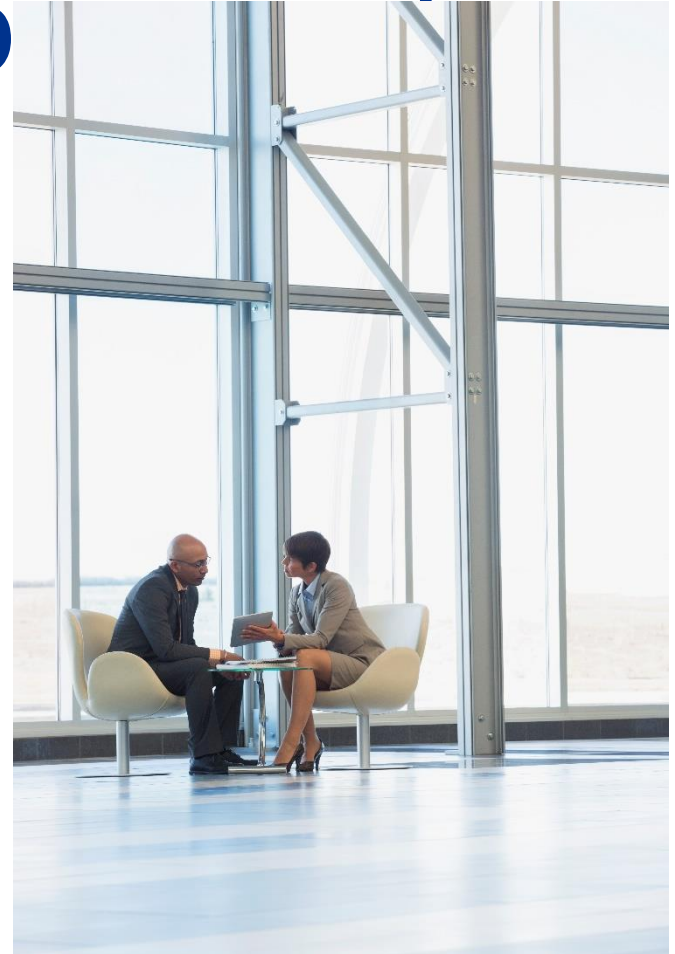
Covid from a non-bank perspective – challenges to come cont'd

- When will the supply chain function at 100%
- Will there be the capital available to restart businesses fully
- Will the Government move to a more balanced economic vs health response and if so when and driven by what – a vaccine or something else
- Will funding remain available
- Will the Government realise the importance of the non-bank sector
- Resourcing for projects
- CCCFA a significant burden
- Responsible lending slowing lending



Covid from a non-bank perspective – what do members need to

- What do members need to consider
- This isn't normal / usual times
- You need to remain agile and flexible and willing to react to change and change as required
- Digitise your business, be ready for the next step change



Covid from a non-bank perspective – what do members need to consider cont'd

- Forecast and re-forecast and think about the different scenarios and what they mean for you
- Focus on your business and what you do well and you are best suited to
- Continue to do all your BAU well
- Continue to push for recognition of the sector and the role it plays and more symmetrical treatment viz a viz banks
- Continue to engage with your customers to make a point of difference

