Credit card switch just starting: Zip Co

LACHLAN MOFFET GRAY

Diamond

The buy now, pay later sector's disruption of credit cards is only just getting started, says Zip Co chief Larry Diamond, who has Australia's 16 million credit card account holders firmly in his sights.

Speaking to Bloomberg TV on Monday as the company entered the ASX 200, Mr Diamond said Zip's success through the COVID-19 pandemic validated its business model.

"When COVID-19 started out in early March, like many boards we were really unsure with how things would play out," Mr Diamond said.

"But it's been really encouraging to see the data over the last three to six months."

Zip Co offers BNPL services for purchases under $1000 and low-cost lending for amounts of more than $1000.

Mr Diamond said that as well as increased consumption and customer growth — up 67 per cent to 2.1 million customers in 2020 — the company's credit business had been performing strongly.

The pandemic had brought a switch to online shopping that had in turn exposed Zip to many potential customers, he said.

But the credit business had also been performing strongly. "We've seen some of our largest repayment months over the past six months," Mr Diamond said.

"Customers have been paying back quickly and recycling that capital quickly and we've seen our lowest arrears over the last six years."

Mr Diamond said that the impact of the pandemic had accelerated the e-commerce revolution by three to five years in Australia and that the corresponding decline in credit card usage "is only getting started". "There are 16 million credit card accounts in Australia; we believe the addressable market is that plus, of course, the debit card population where many of the customers joining Zip do not have a credit card," Mr Diamond said.

PayPal's entrance to the BNPL market was "a great validation for the sector", he said.

"Our view is that a rising tide lifts all boats and so that's a statement saying ... the credit card model is fundamentally broken," he said.

Challenging the credit card industry will also be a key strategy in the company's expansion into the US market through its recent acquisition of US BNPL provider QuadPay.

"This phenomenon that we've seen in Australia ... this flight to online and flight away from the unfair credit card, we see as a global phenomenon," Mr Diamond said.

Zip Co also planned to launch in Britain this year and was looking at further expansion in South Africa, but would not be entering the much more competitive Southeast Asian market in the near future, Mr Diamond said.

On the question of regulatory oversight, Mr Diamond said Zip supported "minimum standards" across the BNPL sector and was encouraged by messaging from Australian authorities.

Shares in Zip Co closed down 1.8 per cent on Monday at $6.05.

Carmaker bosses to face Senate inquiry

EXCLUSIVE

LACHLAN MOFFET GRAY

Executives of all major multinational car companies will have to front the Senate and have their relationships with local independent car dealers scrutinised as part of a new inquiry.

On Monday the Senate standing committees on education and employment voted to establish an inquiry into the relationship between overseas car manufacturers and Australian car dealers, following a year of rapid change that saw the withdrawal of Holden from the market by owner General Motors.

The inquiry comes amid the biggest shake-up of the nation's auto retailing market in decades amid the economic downturn.

National new car sales in August were 28.8 per cent lower than for the same time last year, with 60,958 vehicles sold.

The sales slump was most pronounced in Victoria, where new sales were down 65.9 per cent compared to August last year.

In a statement, Labor senator and committee chair Louise Pratt and Labor senators and committee members Deborah O'Neill and Don Farrell said the actions of multinational car companies had had a "devastating effect" on Australian businesses.

"The sudden exit of General Motors from the Australian market is still having a devastating effect on the car industry in Australia," the senators said.

"Overseas companies such as General Motors don't have Australian businesses' interests at heart when making decisions from their overseas head office.

"More car manufacturers are changing their business models along the same lines as GM."

GM's local subsidiary GM Holden announced in February that it would retire the Holden brand in Australia and New Zealand, compensating the 185 Australian Holden dealers with an arrangement described as "inadequate" by the Holden Dealers Council.

A previous education and employment committee inquiry into the matter heard that Holden franchisees were required to make extensive capital investments by GM as part of their dealer agreements in the months leading up to the announcement of the brand's retirement.

In July, Mercedes-Benz said it would move to an "agency model" of selling cars by 2022, where dealers are paid a sales commission for selling cars on behalf of the company, instead of purchasing the cars and reselling them, and would not compensate dealers for the change.

These moves inspired efforts by peak body the Australian Automotive Dealer Association to establish a separate franchise code governing deals between multinational car manufacturers and independent dealers.

In response, Industry Minister Karen Andrews and Employment Minister Michaelia Cash modified parts of the existing franchise code to further regulate capital expenditure requirements and encourage multi-franchise dispute resolution.

The government also promised to establish a "principles-based compensation guide", which The Australian on Friday revealed to be entirely voluntary, outraging dealers and prompting the establishment of the inquiry.

Australian Automotive Dealer Association chief James Voortman said he hoped the inquiry would lead to reform.

"I hope it will add to the evidence base which has already been well developed by the ACCC's market study and other parliamentary inquiries into GM and franchising," he said.

The establishment of the inquiry comes as a document leaked to The Australian shows GM Holden appearing to establish new dealership agreements with a clause that violates the new voluntary "principles-based compensation guide".

The document, a draft dealership agreement between GM Holden and all prospective dealers of their newly launched GM Speciality Vehicles line, contains a clause that limits a dealer's ability to receive compensation if the agreement breaks down.

"The dealer is not entitled to any compensation payment, reimbursement or indemnity as a result of this agreement coming to an end by termination, expiry or the effluxion of time or by any other means," the clause reads.

The clause violates principles one and two of the government's voluntary guide, which states franchisors "should" provide compensation for franchisees in the "event of early termination" and that franchisors "should not include provisions that exclude compensation in new dealership arrangements".

Senator O'Neill said this showed that a voluntary code of conduct would not work and why an inquiry was needed.

A GM Holden spokesman said the GMSV dealer agreement complied with all laws and regulations and did not allow for GM to terminate an agreement early without compensation.

De Bruin fills last Westpac role

RICHARD GLUYAS

Westpac chief executive Peter King has filled the last vacancy in his senior management team, announcing the appointment of South African banker Chris de Bruin as consumer division head.

Mr de Bruin, who will start in the role early next year, was recruited from Deem in Dubai, one of the largest non-bank financial institutions in the Middle East, where he is chief executive.

"Chris has extensive experience in consumer banking, including leading the global retail distribution and product portfolios, as well as several regional consumer businesses, of a multinational bank," Mr King said. "He also has a very strong background in fintech and digital banking, which will be particularly valuable as we work to enhance our digital capability and better meet customers' changing needs."

Mr de Bruin's priority is likely to be recovery of market share in the key home-lending segment.

Earlier this year Westpac was confronting loan-processing challenges offshore, particularly in The Philippines, because of the pandemic.

In late July, the bank announced it would improve the resilience of the business by investing $45m a year to bring 1000 jobs back onshore. The new roles will support Westpac's call centres, as well as provide processing and assistance to home lending and consumer finance.

Mr de Bruin also will confront the wider banking industry's digital challenge.

While COVID-19 has seen off the immediate challenge of the so-called neobanks, they are likely to return emboldened with the introduction of open banking.

Competition from the big platform businesses such as Amazon also will intensify, mostly likely in strategic partnerships to avoid the capital requirements and heavy regulatory scrutiny of banks.

Mr King has overhauled his senior team since he became chief executive in April, succeeding Brian Hartzer in the wake of the bank's Austrac money-laundering debacle. In July he turned to KPMG partner Michael Rowland to fill the position of chief financial officer.

Mr King also announced the promotion of Les Vance, previously chief operating officer of the consumer division, to the new position of chief executive financial crime, compliance and conduct management.

In a second tour of duty at Westpac, Jason Yetton was recruited to the new role of chief executive, specialist businesses, responsible for the bank's superannuation, life insurance and wealth platform businesses.

International banker Guil Lima became head of the business bank late last year. Deutsche Bank Australia and New Zealand chief executive Anthony Miller will join Westpac later this year as head of the institutional bank, taking over from treasurer Curt Zuber who stepped into the role on an acting basis after the retirement of Lyn Cobley in May.

Scott Collary from Bank of Montreal was appointed in July to lead a new group operating office, bringing together operations and technology.

Westpac insiders said Mr King acknowledged the absence of women in the recent of senior appointments. This is expected to be addressed when vacancies arise.

In other developments, rating agency Fitch has kept the four major banks on negative outlook for their A+ ratings, saying it was unlikely the rating would be resolved until early to mid next year when there was greater clarity on the banks' asset quality and other key financial measures.

"We think asset quality could deteriorate further in 2021 following the unwinding of support measures and loan repayment deferrals," Fitch said. The level of deterioration remains unclear; however, total deferred loans have declined from peak levels.

"It could take a number of years to resolve elevated impaired loans, reflecting the significant scale of the economic shock caused by the coronavirus pandemic," Fitch said.

Hawkins to put IAG on 'conservative' footing

JOHN FEDER

IAG chief executive Nick Hawkins says local insurers never intended for business interruption to be covered in a pandemic

CLIONA O'DOWD

IAG incoming chief executive Nick Hawkins is confident a looming business interruption test case will go the insurance industry's way, despite a similar case in Britain last week finding in favour of policyholders on most of the key issues.

Speaking to The Australian after he was confirmed as Peter Harmer's successor to lead IAG, Mr Hawkins also flagged the insurer would take a conservative approach over the next two years as the nation battles through the COVID-19-induced recession.

"Certainly the settings of our company are going to be relatively conservative. We know our customers have been impacted by COVID-19, and that flows through to what that means for their relationship with us.

"So we'll be appropriately conservative in how we're running IAG, making sure we have an appropriately strong balance sheet and being conservative with our capital."

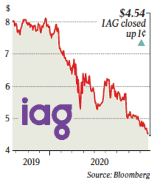
On the business interruption test case brought by the Australian Financial Complaints Authority and the Insurance Council of Australia and scheduled to begin early next month, Mr Hawkins said local insurers never intended for business interruption to be covered in a pandemic.

"It was not our intention to cover in the scenario of a pandemic. We never indicated we were (providing cover for a pandemic) and we didn't collect a premium that covered that risk.

"I've seen contract law disputes around the mechanisms and mechanics of policy wording, but our strong view is that we don't cover business interruption on a pandemic scenario."

The concepts of the test cases in Britain and Australia were different, he said, with the British case centring on policy wording, unlike in Australia where the intention was to exclude pandemic coverage.

One of the central issues that will come under scrutiny in the NSW Court of Appeal test case will be whether policies that reference the Quarantine Act, which was replaced by the Biosecurity Act in 2016, validly exclude human diseases such as COVID-19. IAG's policies refer to the outdated Quarantine Act.



Source: Bloomberg

Downplaying the potential exposure the insurer is facing pending the outcome of the case, Mr Hawkins said IAG had not received many pandemic-related business interruption claims.

UBS last week warned that IAG would be most exposed if the Australian test case doesn't go in the insurance industry's favour.

"While the insurers' view is that pandemic exclusions referencing the Quarantine Act are enforceable, a negative outcome on this issue would see IAG most exposed relative to Suncorp in our view," the broker told clients.

"While IAG/Suncorp may have limited scope for catastrophe reinsurance recoveries, benefits from lower motor frequency may temper impacts."

Early estimates for the British case put insurance payouts at more than $2bn.

IAG earlier on Monday named Mr Hawkins as its new managing director and chief executive officer following a months-long search to find a replacement for outgoing boss Mr Harmer.

Mr Hawkins, who takes on the top job on November 2, was the insurer's chief financial officer for 12 years before being appointed its deputy chief executive in April, when Mr Harmer announced his retirement. Mr Harmer will leave the company on November 1 after five years in the CEO role.

Chairman Elizabeth Bryan said Mr Hawkins's appointment reflected the strength of the insurer's leadership team and would deliver continuity and stability for the company.

"Nick has a deep understanding of both global and domestic general insurance along with operational and financial experience, and this will ensure a smooth transition for IAG," she added.

Bell Potter analyst TS Lim said the internal appointment of Mr Hawkins to the top job was the right call as it would see the insurer retain its current strategy.

"He's a steady pair of hands and he's been around, so that's good. It shows continuity.

"Just keep on doing what they've been doing, managing costs pretty well and ensuring that they have enough reinsurance."

IAG in August posted a net profit of $435m for the 12 months through June 30, down 60 per cent on the prior year, as volatile investment markets, higher natural disaster claims and COVID-19 impacts hit its bottom line. It was the lowest annual profit the insurer had reported since a $207m result in 2012.

Mr Hawkins's appointment comes as peer QBE also hunts for a new CEO following the swift departure of boss Pat Regan.

Mr Regan was stood down late last month following a complaint from a US-based female staff member and an external investigation into emails and texts sent to the employee.

IAG shares finished Monday's trade up 0.22 per cent at $4.54.

NBN Co unveils free fibre upgrades

EXCLUSIVE

CHRIS GRIFFITH

More than 700,000 businesses will be eligible for free upgrades to the government's high-speed fibre broadband to be rolled out in 240 designated zones across Australia, including 85 regional areas.

The measure will be announced today at Port Macquarie and is part of NBN Co's business fibre initiative, a $700m package for small to medium business to access super-fast connection speeds.

The government's plan involves defining areas where fibre optic connections can be built into business premises.

Communications Minister Paul Fletcher said the government would announce 130 zones on Tuesday with the remaining 110 announced in coming weeks. Rockhampton, Bunbury, Port Macquarie, Coffs Harbour, Mt Gambier and Devonport are among the locations.

He said the zones had a certain density of businesses within a "reasonable distance" of existing NBN infrastructure. At Port Macquarie, premises may be 1km to 5 km from existing fibre optic cable. "The fibre might have to run for 500 metres; it might have to run for several kilometres," Mr Fletcher told The Australian.

He said the $700m would cover building additional connections over four years.

The government expected to cover 90 per cent of business in fibre zones.

Other local business, chambers of commerce or councils that fell outside zones could potentially co-invest with NBN Co for a fibre connection, he said. A separate $50m fund within NBN would assist with this.

The business fibre initiative is being funded from part of the $6.1bn private debt facilities recently established by NBN Co and announced in May 2020, as well as company revenue.

Connection speeds will range from 10Mbps to 1Gbps, 10 times the throughput of NBN's premium 100Mbps speed for consumers. Connections would be symmetrical, with equal download and upload speeds.

Mr Fletcher said businesses could place orders for the service with their internet retailer by month's end, with construction to begin soon after. The government estimates the project will generate 6000 jobs by 2021-22. Engineers, project managers and construction crew will be among those employed.

He said some businesses already sold fast fibre connections, but upfront costs were substantial. The fibre upgrade to NBN Co's enterprise ethernet, its fastest wholesale product, would involve no upfront cost to retailers.

Mr Fletcher said the government would reduce the wholesale pricing in non-CBD zones so that businesses in regional areas and greater urban areas, such as greater Melbourne and Sydney, paid the same as CBD users. He gave the example of a wholesale price in zone two being $797.30 for a 500Mbps connection; that would be reduced to the CBD price of $542.30, a 32 per cent reduction. In some cases, the discount could be up to 67 per cent.

"For the first time, businesses outside capital city centres within these business fibre zones will have access to CBD zone wholesale prices, driving annual cost savings of between $1200 and $6000," Mr Fletcher said.

Pandemic pushes Yancoal into red

Yancoal has slashed its capital spend to ride out a fall in coal prices triggered by the COVID-19 pandemic that helped push it into the red.

The Chinese-backed miner cut forecast capex for the current year by more than one fifth to $300m, from $380m in February, saying it was "closely monitoring the state of international coal markets and critical supply chains".

All non-essential capex will be deferred until 2021.

The warning came as Yancoal revealed an interim net loss of $37m, down from a $345m profit in the same period last year.

Revenue from ordinary activities slumped to $1.97bn in the six months to June 30, down from $2.35bn.

Its realised average coal price for the three months through June fell by 25 per cent from the same period last year.

SAMANTHA BAILEY

Bis eyes mining automation in Israeli deal

PERRY WILLIAMS

Resources contractor Bis Industries, controlled by private equity firm Carlyle and hedge fund Varde Partners, is targeting the rollout of a new low-cost mining automation venture after striking a tech deal with Israel's largest aerospace and defence company.

The West Australian company's 50:50 joint venture with Israel Aerospace Industries — dubbed "Auto-mate" — is aimed at tapping into an estimated $50bn global automation market by connecting existing trucks, road trains and pit haulage into an integrated system.

The tie-up was sparked after Bis, chaired by AGL Energy chairman Graeme Hunt, embarked on a global tour looking for a tech partner that could help develop a product to disrupt traditional suppliers like Caterpillar and Komatsu.

While Big Australian players including BHP and Rio Tinto have been among early adopters of automation at the mine site, Bis looked overseas for opportunities, given decades of tech innovation in other industries.

"Our view was there are already some players in the market who have done a good job in getting a foothold, so we went searching for an alternative play," Bis chief executive Brad Rogers told The Australian.

"We wanted to find an advanced and established technology and we went looking outside of mining for that in the aviation, defence, agriculture industries that have been automating assets for longer than mining has. In the course of that we came across Israel Aerospace Industries who have been leading the way in robotics and automation for aviation and off-road vehicles for decades now."

The Israeli company was also on the hunt for partners to expand into new industries, with Bis able to pitch its contracts providing logistic support solutions to the resources sector such as road trains and pit haulage.

Bis looked offshore for growth opportunities

"They were looking to adapt their technology into civilian applications," Mr Rogers said. "It's adaptable to any asset type, any age of asset and any level of automation.

"What you get from providers currently is fully automated dump-trucks and that makes sense as a high volume, high value category on mine sites. We can do that but equally we can adapt and automate fleets of bulldozers, water carts or road trains and it could span from remote control to platooning semi automation and through to full automation."

Bis abandoned an ASX float in late 2013 after being lumbered with debt following the resources industry downturn, followed by a long-winded recapitalisation that saw Carlyle and Varde replace private equity giant KKR as its owners in 2017.

Speculation continues to bubble over the long-term intentions of the private equity group owners. Mr Rogers said they would consider their options, with both a trade sale or IPO potential avenues for an exit, although no changes are expected in the short-term.

"There will be an exit at some point but there is nothing planned right now. We're focused on growth," he said.