**The Healy Index**

**Introduction**

*Tena koutou, and good afternoon everyone.*

As many of you know, I am only five months into my new role as CEO of the Bank of New Zealand. My six-year-old daughter Caroline is convinced that the CEO stands for Chocolate Eating Officer, and sometimes I wish it did!!

But when people ask me what the purpose of my role is, I tell them it is to serve our people and our customers; to ensure we deliver sustainable returns for our shareholders and to take a longer view of what’s important for New Zealand and the Bank’s role in enabling that future.

I have always had a strongly-held belief that one of the most important tasks of a leader is to connect their people to the higher purpose of what they do. People want to know what they do, matters…that they matter…and that they can find meaning and purpose in what they do, other than just deliver for shareholders.

The company I’m privileged to lead is steeped in purpose – BNZ has been around for over 150 years, through any number of political cycles, not to mention wars, depressions and economic crises, even its own near bankruptcy. Our mission is to be the Bank *for* New Zealand. To enable a higher-achieving New Zealand by helping New Zealanders be good with money. This is not just words on a mission statement….our people truly believe in this unifying purpose….and it guides everything we do.

So today, I’m not going to talk about financial returns…I want to take a longer view of what is important for New Zealand’s future, to talk about purpose, and to hopefully provoke you to think a little differently about how we measure New Zealand’s success in the future.

Banks are full of numbers and statistics, enough to make your eyes water. So I thought I’d spare you some misery and focus today on just five numbers. Allow me for this afternoon at least to refer to this small collection of numbers as the Healy Index.

At a certain distance the figures look unrelated. But I’m not sure they are.

These figures all matter to me, because of the story I believe they tell about the state of NZ Inc right now, and are therefore of more than passing relevance to BNZ’s mission to be the Bank *for* New Zealand.

**The first number is 450,000.**

This is the number of small and medium enterprises operating in New Zealand. ‘Small’ is a key word here – these 450,000 companies have, on average, two paid employees.

BNZ, by contrast, has 5,000.

But a lot of small things can add up to something rather big. In aggregate, the activity of this same 450,000 SMEs amounts to nearly 28% of New Zealand’s total GDP.

So if agriculture, and particularly the dairy sector, is the backbone of our economy, then the SME sector is in many ways the flesh and blood.

And this sector is a deep reservoir of employment, talent, innovation and sheer bloody hard work.

I know this because BNZ has many of these people as our customers.

They include craft beer brewers, business coaches, tradespeople, gourmet ice cream makers, and the creators of sophisticated software being used by the US film and television industry.

I don’t wish to exalt the SME sector at the expense of others. But the importance of the SME sector is a useful counterweight to the idea of New Zealand being a fundamentally commodity-based economy. The overarching importance of our dairy sector can hardly be over-estimated.

The challenge is to add value to what we grow here, process and sell to the world. Happily, the likes of **Tatua** and the **Dairy Goat Co-Operative** are already well down this route.

Tatua is a niche operator in the dairy sector focusing on complex value-added products exported to the global food industry. Ninety percent of the company’s product is exported, with about 30% going to Japan alone.

Dairy Goat Co-operative is farmer-owned, co-operative. It has become a world leader in developing, manufacturing and exporting goat milk consumer products. It developed the world’s first commercialised goat milk infant formula and long-life (UHT) goat milk – products that meet the nutritional needs of lactose-intolerant people. Sounds pretty niche right, until you realise that over 50% of the world’s population have some degree of lactose intolerance.

I know from my many years in banking that the SME sector is full of innovation and added-value stories.

My broader point is that the prosperity of business, small and large, matters profoundly to the success of the company in which we all have a stake – New Zealand Incorporated.

A thriving SME sector is an indicator of this, and I will support any policies and initiatives that will help to achieve this.

Some of these policies, including the Government’s Business Growth Agenda and changes to the Resource Management Act, were canvassed in the recent election campaign, even if they were often overshadowed by other, more colourful elements.

But the responsibility does not lie solely with central government. Our business sector, and the SME sector in particular, has long since outgrown that dependency.

So, what can we do for ourselves?

As I’ve indicated, BNZ has deep relationships with many thousands of SMEs, helping to sustain their day to day business.

We’ve taken a strategic approach, too, for example with our support of the ICEHOUSE, helping to increase the capacity and skills base of the SME sector with an eye to the long term.

Many SMEs in New Zealand grow, expand to a certain size and scale and then fail to take the next step that would allow them to internationalise. The most common reason for not making this step-change is capability, and it’s a problem that needs tackling.

That’s why we invest in business growth programmes through the ICEHOUSE, to help our owner-managers build their skills and capabilities to grow and succeed.

Many owner-managers say they are too busy to invest in their own capability….well, that’s got to change. We have put over 5,000 of our customers through business growth programmes at the Icehouse and we have seen their revenue increase 30% on average over three years – 2.5 times faster than businesses that haven’t been through similar programmes.

Owner-managers need to not just invest in their plant & equipment, or their distribution channels….the most important investment they can make is in themselves….

**The second number is 470,000.**

This is the estimated number of Aucklanders of Asian origin by 2021. It will amount to nearly one-third of our region’s entire population, and is an increase of 75% from the current level.

As the 2013 census results tell us, New Zealand is experiencing significant demographic shifts, and these are most apparent here in Auckland.

We’ve long been the largest Polynesian city in the world, but now we are becoming something else too: an Asian *and* Pacific city, continuing to exert a very large influence on the economic fortunes of New Zealand as whole, with an increasingly diverse racial character.

Taking advantage of these shifts will require open hearts and open minds as much as it does open borders and trading arrangements.

Successive governments have made good progress on the trading front. Since 2008, when a free trade agreement was signed, our exports to China have trebled.

But I would argue that progress with respect to hearts and minds is rather more mixed.

What’s going on??

Given the fundamental importance of our trading relationships with Asia; given our longstanding reliance on the savings of people in other countries to fund our lifestyles and livelihoods here in New Zealand; given the importance of migrants to our SME sector; given the enthusiasm with which our universities seek to recruit fee-paying students from Asian countries; given our love of holidaying in Asian destinations and waxing lyrical about them on our return to these shores; given all of *this*, I do find the occasional knee-jerk response to *some* types of direct investment from *some* countries a little disheartening. It betrays a close-mindedness that can seem at odds with our self-image as a generally confident, connected, outward-facing and tolerant nation.

At BNZ we’re taking a multi-pronged approach to Asian and migrant engagement, not just as a reflection of our deeper institutional commitment to diversity, but also because it makes profound business sense when one pauses to consider the changing character of the communities that sustain us, and New Zealand’s ever deeper trading ties with China and other Asian countries.

BNZ’s head of migrant and Asian banking is a man called **Frank Cui.** When he arrived in New Zealand 13 years ago he was not a fluent English speaker. Now he heads up one of BNZ’s highest growth businesses in an area that can only grow in importance.

Frank’s story is, I think, worth shouting from the rooftops. Any decent-sized business looking to grow and prosper over the next 10-20 years, and not just here in Auckland, will need a Frank of its own. Or several of them.

BNZ has also been active in supporting more thought leadership in this area. The BNZ Professor of Asian Business Studies at Victoria University is **Siah Hwee Ang.** His chair has been jointly funded by BNZ, and the Ministries of Business, Innovation and Employment, and Foreign Affairs and Trade.

You may have seen Professor Siah’s regular columns in the *New Zealand Herald* newspaper and the *interest.co.nz* financial news site in which he discusses many aspects of our trade with Asia. These are essential reading if you and your company is remotely interested in the topic of how to do business in the region.

BNZ sees diversity itself as a competitive advantage, and one which needs to extend well beyond the frames of gender and ethnicity.

A true commitment to diversity should, to my mind, spur old institutions to act in new ways. That might sound a little ironic coming from a middle-aged white man in a suit but I *am* the CEO of BNZ – and a true organisational commitment to diversity, in all of its dimensions, needs to be led from the top.

**The third number is 62%**

This is the percentage of New Zealand’s lowland river waterways officially classified as unsuitable for swimming, according to a recent report by **Dr Jan** **Wright**, Parliamentary Commissioner for the Environment.

The idea of a clean and green nation is one that has a strong hold over our collective consciousness. We sell ourselves to the world based on that very image.

The PCE’s figures don’t demolish that image but they should at the very least give us pause for thought.

The very notion of ‘clean and green’ is, fundamentally, *about* water.

Now I’m optimistic. That’s because I’ve observed the emergence of an interesting coalition of aligned voices on the issue of water quality.

These voices are not confined to one part of the ideological spectrum.

I’ll read you two quotes from people and organisations who in recent weeks have spoken publicly about water quality and related issues.

First:

*"You will see us talking more and more about feeding the children of New Zealand and fencing and planting all the waterways of New Zealand. We will be talking about other topics like effluent treatment on farms, emissions [and] animal welfare."*

And here’s the second:

*"We want our rivers to be clean enough for swimming, playing, fishing, and gathering kai, and to remain clean and healthy enough for our children and grandchildren to enjoy in the future."*

The first of these quotes comes from **Theo Speirings**, CEO of Fonterra. The second comes from **Green Party**.

How much daylight can you see between the two viewpoints, really?

I think everyone in this room should take an interest in the Parliamentary Commissioner’s reports.

We should also show a collective interest in the huge amount of policy thinking and action already in place around water quality, such as the government’s recently-announced initiative on the fencing of streams on farms, and the Million Metres Streams project.

And we should show an interest in how individual businesses, in the dairy sector and elsewhere, are already responding to the challenges and opportunities, by think differently and looking for innovative ways to tackle the problem.

**Mike and Sharon Barton** are beef cattle farmers near Taupo. The catchment they farm in has a nitrogen cap in place. So Mike & Sharon had to think differently about the model they employed in a production-constrained environment.

Here’s how Mike Barton himself sums up the key issue facing his business: *“The way we fund the costs of water quality protection is through adding brand value so that we can bring more money to the mix to deal with the problem.”*

And that’s exactly what the Bartons have done, to the point where their beef is sold to appreciative diners in Auckland, Wellington and elsewhere at a significant premium over their competitors’ product.

Read alongside the PCE’s report, the Bartons’ story is a strong pointer to the future. It should get us all pondering about how environmental considerations could play out in the years to come in the changing expectations of consumers, politicians and regulators.

People like the Bartons are already taking a far-sighted approach, and have proved that environmental guardianship and good business sense are not mutually exclusive.

And this is not just a “farmer’s issue”. The problem is collectively owned by anyone who has eaten anything produced on a farm.

Which pretty well covers all of us, including a banking sector with deep and abiding ties with agriculture in New Zealand.

**The fourth number is 517,000.**

This is the number of New Zealand premises that can access ultra fast broadband.

I am not sure if this makes us an authentically digital nation yet. I said *can* access UFB – when in fact less than 40,000 *do*. For now.

Digital technology develops at an exponential rate and future trends, uses and implications are notoriously difficult to predict. In 1974, as part of an advertising campaign associated with that year’s Commonwealth Games in Christchurch, BNZ confidently told New Zealanders that bank branches in the early twenty-first century would look like orange flying saucers. We didn’t quite get that right.

But I would wager that the role of digital technology in our lives can only increase, encompassing all aspects of our existence.

BNZ is moving quickly, not least because we want to keep up with the expectations, demands and behaviours of our customers. The rapid uptake of our YouMoney drag and drop online banking product, with the number of customers doubling in just 12 months, is testament to this.

We are proud funders and supporters of EPIC, a Christchurch-based cluster of ICT businesses that are competing on a global scale, in a weightless economy, delivering highly sophisticated IT, gaming and animation solutions to Disney and Pixar, among others.

There is no doubting that digital technology will enable savvy New Zealand producers to expand their trade with the world in ways that might have seemed inconceivable even a few years ago.

These producers can use the immense power of digital technology to bring the best of New Zealand goods, services and products directly to consumers around the world.

As an example, look at the recent promotion that saw NZTE join forces with China’s most popular business-to-consumer online shopping platform Tmall.com, part of the now famous Alibaba.

The promotion was run for a week in April, and allowed Chinese shoppers to buy live seafood fresh from New Zealand’s waters, then have it packaged and sent by air to Shanghai within 36 hours. The morsels available included paua, greenshell mussels, and oysters. From Shanghai these salty delicacies were then shipped to customers throughout China.

Now Tmall is continuing to build its fresh food platform through the joint promotion with NZTE.

The consequences of not responding rapidly to these trends are sobering. In just 18 months Google erased 85% of the market capitalisation of the top GPS companies after launching its mobile maps application.

This same chicken may well come home to roost in the industry I work in, too. Accenture has estimated that competition from non-banks could erode one third of traditional bank revenues by 2020. It’s self-evident to me that these threats will have powerful digital propositions at their core.

**The fifth number is 26%.**

This is the percentage of New Zealand students in 2013 who left school without a qualification at NCEA level 2 or above.

Is it acceptable that in a first world country of just 4.5 million, one in four school leavers have no qualification at all, and are the *consequences* of this acceptable?

According to the **Ministry of Education**: *“The attainment of an upper secondary school qualification is linked to labour force status and incomes.  In 2011, New Zealanders with no qualifications had an unemployment rate 48% higher than those whose highest qualification was a school qualification.”*

I think we should throw the kitchen sink at improving this statistic, and build on the small progress made in recent years.

Multiple approaches may be needed, given the likelihood that the factors behind the statistics are themselves numerous.

If our children aren’t achieving at school, it won’t be for any one reason. It’s a problem that in my view is caused by a combination of parental role-modelling, issues of poor housing and health, child poverty, and others.

I believe in the absolutely fundamental importance of education.

So many of the challenges and opportunities I’ve talked about earlier today, from the potential of our SME sector to grow and prosper, to chasing the staggering potential of digital technology, to applying our brainpower to the solution of deep-seated environmental problems, share education as an underpinning.

I’m heartened that my counterpart at ANZ, David Hisco, has publicly commented on the same theme in recent weeks.

There are related statistics that concern me, too.

* As at March 2012, there were almost 100,000 people aged 15-24 in New Zealand officially classified as NEETS – not in education, employment or training.
* Over 20% of New Zealand children live in benefit-dependent households.
* The gap in enrolment rates in early childhood education between Maori and non-Maori children is 23%.
* The gap between deciles 1-3 and deciles 8-10 schools in Year 11 level 1 pass rates in 28.4%.

A profitable business sector has the capacity and, I believe, responsibility to play a role in tackling some of the issues highlighted by these statistics. That’s because the sustainable prosperity of local business is ultimately dependent on the health, well being and advancement of the communities we serve.

This imperative also applies to the banking sector.

In a purely financial sense, every year New Zealand banks contribute $6 billion directly to the New Zealand economy, through their operational expenditure of $4.5 billion and tax of $1.5 billion. And we collectively lent an additional $15 billion into the economy to support businesses and households.

We employ around 23,500 people.

As investors, as spenders, as employers and above all as *enablers* of activity, banks make an enormously positive difference to the progress of NZ Inc. I’m very proud of that.

But what else could we do? Beyond our usual commercial activities.

As noted earlier, government policy settings are important but will only take us so far.

The efforts of companies like Spark, McDonald’s, Meridian, and The Warehouse in sponsoring a range of activities aimed at bettering the lives and potential of New Zealand’s young people are highly commendable. So let’s have more of it.

BNZ, too, believes passionately in the supportive role it can play, over and above our contribution as an employer and investor in communities throughout New Zealand. There is so much more I believe we can do to enable a high-achieving New Zealand. But we have started to make an impact.

We have a cadetship scheme for young Māori up and running, in partnership with Te Puni Kokiri.

We know that increasing our Māori talent will help enable BNZ to better respond to the increasing demands of the fast-growing Māori economy, as well as contribute to bringing new, diverse thinking into our organisation.

Our annual Closed for Good event is the largest single corporate volunteering event in New Zealand. This year’s Closed for Good involved more than 3,000 BNZ’ers. Coaching, mentoring and supporting of young people, and a focus on financial literacy, is an established and growing area of activity on the day.

As a flagship initiative, earlier this year BNZ launched a community finance scheme in partnership with central government, the **Church of the Good Shepherd**, and the **Salvation Army**.

The scheme offers low and no-interest loans to New Zealanders who are unable to meet traditional credit criteria. In the jargon, these people are often ‘financially excluded’ – their life circumstances mean they don’t tick the boxes banks traditionally rely on.

In practice, having access to credit with which to buy a cheap but reliable car, for example, or to meet unexpected appliance or repair bills can make all the difference to the recipients’ capacity to find and stay in work – and so keep out of the clutches of payday lenders.

BNZ has put $10 million over five years into community finance, and we’ve leaned heavily on the experience and approach of our parent, the National Australia Bank, which been successfully offering community finance for more than ten years in Australia.

The scheme builds on the financial literacy efforts we already have in place – such as our “train the trainer” workshops for Whanau Ora and Iwi organisations across the country.

More generally, our financial literacy initiatives have a strong focus on young New Zealanders, such as the workshops we facilitate in high schools through the SavY programme, or the assistance we give first-time parents through our longstanding association with Plunket.

And now we’ve already made the first six community finance loans. The average amount has been $2,740, and used predominantly for car purchases or car repairs, for people where having a motor vehicle is critical for maintain their employment.

As I said, this scheme is a partnership. Full credit, as it were, must go the **Honourable Paula Bennett**, who as minister for social development in the previous parliament championed community finance as one strand of her government’s approach to tackling poverty.

I congratulate her on her recent appointments, which include a new social housing portfolio, and am strongly considering adding her cabinet ranking to the next version of the Healy Index.

BNZ is the first of New Zealand’s big four banks to strike out in this direction. I would be delighted for others to step up and build on the contribution BNZ is now making, to greatly expand our collective efforts in the area of financial literacy and empowerment.

**Conclusion**

I’m convinced my index serves as a useful ready reckoner on the state of New Zealand right now, and I shall be watching the figures closely for as long as I have the privilege to lead BNZ, and beyond.

The figures will give me more than a glimpse of the New Zealand my children will inherit. And that’s what *does* keep me awake at night.

The index poses quite a few questions, for all of us.

How do we maintain government policy settings that maximise the capacity of our SME sector to grow and prosper?

Might better-educated children have a better crack at becoming the sorts of SME entrepreneurs and owners we need more of in a digital world?

How do we ensure the increasingly diverse face of New Zealand society puts us in a better position to imagine and capture the enormous opportunities presented by the Chinese and Asian economic growth?

How do we join together to respond to the sorts of environmental issues that could undermine our clean and green image, such as the degradation of our lowland waterways?

I’ve talked about BNZ’s response in each of these areas. We are already investing hugely in digital opportunities, we are taking a strategic and very commercial approach to diversity, and our community finance initiative show our willingness to reach beyond banking as we know it.

There is more that needs to done, by all of us. Big business, the banking sector included, has the resources to make a difference in the areas I’ve talked about it, in partnership with central government and others.

But as a small country, we can’t afford to keep fragmenting our efforts. There are so many good ideas, and so little coordination or concentration of effort.

I want to leave you with a question and a challenge.

Can we collectively, together, have more impact on the things that really matter for the future of New Zealand? And how should we measure that success?

And as leaders of the New Zealand business community, what are we going to do about?

Now I hope my speech hasn’t sent your blood sugar levels plummeting. If it has, then by all means pop down to **Giapo**, a shop set up by **Gianpaolo Grazioli** right next to the Civic Theatre. Gianpaolo is a BNZ client, and great migrant small business success story - and he makes absolutely delicious ice cream.

Thank you.