SUNCORP

Speech

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Global disruption – local economic impacts

Address by Suncorp Chief Financial Officer Steve Johnston to Ceda Conference

Good afternoon.

It's a pleasure to present at this forum and I again congratulate CEDA on the great job it does to stimulate debate and advance public policy in this state and throughout the country.

I'd also like to thank Griffith University for their generous support of this event.

Today's topic: "Global disruption and its impacts on local economies" is perhaps one of the most hotly debated issues in today's world. It crosses all geographies and is assumed to affect most industries.

Historian and Republican US Senator Ben Sasse said recently that the past few decades have been historically unique, a trend he also expects to continue over the next 20 to 30 years. What he is referring to is the next great evolution - the digital economy, which he describes as the largest economic disruption in recorded human history.

And while I don't argue this point, my thesis is that the threat of change and a negative view of the consequences of that change is having a huge impact on our economy – today. And that impact is multi-dimensional.

It's hard to argue that tectonic change is unfamiliar in the history of mankind - think of the industrial revolution, mass urbanisation and the onset of the computer age as points in human history where the naysayers would dominate public discourse.

And yet we seemed to get through each of these change-defining moments with society pretty much intact.

So, what is it about the digital revolution that leads commentators to suggest that this is so much different?

Firstly, the digital economy breaks down established institutions, market structures and business models.

Let's consider some of the world's largest companies today. Uber, the world's largest taxi company, owns no vehicles. Facebook, the world's most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. Airbnb, the world's largest accommodation provider, owns no real estate. Indeed, they are platforms - utilising technology as the conduit to link customers and products.

While technology has always been a great force in overturning the status quo, the difference today is the sheer ubiquity of technology in our lives and the speed of change.

It took more than 50 years after the telephone was invented until half of American homes had one. It took radio 38 years to attract 50 million listeners. But Facebook attracted 6 million users in its first year and that number multiplied 100 times over the next five years. China's mobile text-and voice-messaging service WeChat has 300 million users, more than the entire adult population of the United States.

The success of these enterprises has been simple – they have identified a need, resolved a pain point, innovated with technology and waited for customers to jump on board. And come they have.

But this success has also been facilitated by complacency … mainly on the part of incumbent businesses who have hidden behind market structures and regulation … with a focus on the shareholder that quite often has come at the expense of the customer.

Arguably, any of the established companies that today are extinct, or feel threatened by the likes of Uber, Facebook or Airbnb could have innovated their way to the same outcomes.

Why didn't they? The answer is simple: there is margin to be lost and profit to be compromised as you make your way through the transition. And, by the way, you also have to convince investors and analysts, some of whom now measure long-term investing in months, not years.

While the future of many of our large corporations may be threatened, it's hard to see that this in and of itself is a precursor for economic doom. In fact, putting customers and products together, in a more efficient way, will arguably drive improved economic outcomes. And indeed, many of our top 20 companies are belatedly contemplating massive investment programs to facilitate this transition – digitising core systems and customer interfaces. Again, investments that will drive jobs today and ensure future economic growth.

So, why all this doom and gloom at the top end of town? Well much of this is driven by what I call the pincer movement of regulation and disruption. At the same time as our major corporations face the threat of agile, capital light, start-ups and disruptors, they are dealing with the tightening of regulations as governments react to elector sentiment.

Financial services is a case in point: under attack from Fintechs but simultaneously facing a tsunami of government imposed regulation. I'll return to Government in a moment, but my point is that the challenge of becoming more agile in an era of tightening regulation is going to be a huge challenge for corporate Australia.

Closer to home, and at Suncorp, we are proactively dealing with these challenges by adopting platform thinking to evolve our business – in turn providing more value for customers.

Professor Michael Rosemann from QUT talks about the dual track of building cost resilience in the age of automation, while simultaneously driving revenue resilience in an era of digitisation. Known as the ambidextrous transformation, this fundamentally resets an organisation from a preoccupation with threats and risks to an opportunity mindset. This best summarised the Suncorp approach.

Take driverless vehicles as an example. In isolation, they could be seen as a major threat to a business model reliant on accidents, repairs and car insurance. However, assuming a digital and opportunity mindset, how can we capitalise on our current market leading position to be a major part of the digitised vehicle and the digital attention that will be unlocked in an automated driving world. A similar argument can be made for home insurance where the connected home will be a key digital platform for the future.

Impact on the labour market….

This changing model of corporate Australia has immediate consequences for the labour market and the attitudes of our workers and alongside that, our local economy. While it can be easy to see the impact on the labour market from disruptors such as Uber, who have changed the working model away from corporate-to-consumer to individual-to-consumer, we need to look much deeper than that.

The RBA Governor, in a recent speech, observed that many workers in advanced economies feel like they're facing more competition. This is coming from two sources: globalisation and technology, most particularly, the fear of being replaced by robots. This sense of competition and insecurity means that workers are less inclined to take a risk by seeking larger wage increases. In a nutshell, holding one's job ranks ahead of a salary increase.

This, in turn, has macroeconomic consequences, including more subdued growth and the absence of inflation putting pressure on household budgets and creating policy challenges as governments and central banks seek to stimulate the economy.

So, having talked about the impact of digitisation and automation on our largest companies, what about our largest employer – Government. Here the impacts will be threefold:

Firstly, as a provider of public sector goods and services, can the Government itself innovate its way to a more efficient service delivery model?

Secondly, what regulatory settings will the Government impose to deal with the emergence of the disrupted economy? And how will this play out with customers who are also electors?

And finally; how will our law-making parliaments respond? The society created by the disrupted globe has established a vulnerable and impatient electorate. One seeking simple solutions to complex problems. This, in turn, has created perhaps the most volatile electorate in history – likely to continue to install into higher public office those unlikely or ill prepared to lead, and in my view, to potentially render as extinct the 2 to 3 party structure as we know it today. Ladies and gentlemen, dealing with Government is about to get a whole lot harder. For those relying on established means of influence and policy development, you had better find a new play book.

And why should it not be so. Its incongruous to expect that our largest corporations will be disrupted and evolve, and our established institutions won't.

The rise of Asia and emerging markets…

However, technology isn't the only major disruptor to the economy.

In the past decade, we have also witnessed a monumental global shift in power – both politically and economically – and this will continue to evolve over the next five, 10, 20 and 30 years.

I'm talking, of course, of Asia and the rapid growth of emerging markets – major global disruptors that are challenging the traditional power held by the US and Europe.

Consider for a moment the Fortune Global 500 back in 2000. At the time, 95% of the Fortune Global 500 – made up of the world's largest international companies – were headquartered in developed economies. By 2025, it's predicted that China will be home to more large companies than either the US or Europe, with half of the world's largest companies – those with revenues of $1 billion or more – to be headquartered in emerging markets.

These figures should not come as a surprise. When you look at where economic growth will come from, it's estimated that nearly half of global GDP growth between 2010 and 2025 will come from emerging markets.

And within these emerging markets, we are going to see an increase of billions of people into what is categorised as the middle class – defined as those households with per capita incomes between $10 and $100 per person per day. At the end of 2016, there were 3.2 billion people in the global middle class category.
Research predicts that, in just over a decade from now, there will be 5.2 BILLION people globally.

During the same period, Asia will contribute an additional $24 TRILLION in middle class spending - a rise of 200% compared to today's level - which will comprise nearly three-fifths of all middle class spending around the world.

Briefly, to the impact of disruption on global market and at the same time as the digital evolution was beginning to pick up pace, our economic markets are enduring some of their most challenging moments in history, magnified by lacklustre growth immediately following the GFC.

These challenges have mostly subsided since 2008, largely due to the extraordinary monetary stimulus provided by global central banks. The impact of this has been significant and global asset markets have performed strongly, characterised by low volatility and strong sentiment. But there are plenty who believe that at some point we will pay the price for a decade of stimulus, if not only for the fact that our traditional means of managing economies – monetary and fiscal policies - have been rendered obsolete.

Well maybe that's an extreme observation but it's arguable that like companies, governments and society in general – our tools of economic management have been severely disrupted, ushering in a new era of economic thinking.

So, in conclusion, its inarguable that the world is changing and it's our ability to embrace disruption that will determine our future.

For governments, companies and people, they must recognise that change is unavoidable – like death and taxes – and adapt for the better. As Ben Sasse said, the digital economy is arguably the largest economic disruption in recorded human history.

The only question that remains is which side of the barb wire fence will we sit – as the disrupted or the disruptor? Because sitting on that fence is going to be mighty uncomfortable.

Thank you.