

# Don't cut support too quickly: Judo

By JOYCE MOULLAKIS



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**EXCLUSIVE**

JOYCE MOULLAKIS



**Healy**

The federal government should consider moving away from hard end dates for pandemic support for small business, as the economy braces for a "real testy period" of company hardship and collapse in the June quarter.

That's the view of Judo Bank joint chief executive Joseph Healy, whose challenger bank focuses on the small and medium business sector.

He highlighted that insolvencies were running about 35 per cent below comparable periods — due to COVID-19 support packages — meaning there would be a sharp bounce as measures were withdrawn, with the possibility the number of businesses folding could exceed that by a further 25 per cent.

"The period between the end of March and the end of June in particular is going to be the real testy period," Mr Healy said.

"To have hard drop-dead dates (on support packages) without keeping an open mind is out of keeping with the reality of the world that we're in.

"The consequences of not doing something are order of magnitude two or three times worse than the fiscal impact of supporting the economy."

The business community has endured another confidence hit over the past three weeks after fresh COVID-19 infections were reported.

Several Australian states have been dealing with flare-ups of COVID-19 infections which have spurred snap border closures and put thousands of people in lockdown and isolation.

On Friday, the Queensland government announced Greater Brisbane was entering a strict three-day lockdown in a bid to curb the spread of a highly infectious strain of COVID-19.

Mr Healy — a former executive at National Australia Bank — said while he was more optimistic about Australia's economic

prospects than six months ago, he was still taking a cautious approach to the next six months.

"We are going to see, as Warren Buffett once said, 'when the tide goes out you find out who's been swimming naked'.

"When this particular tide of government support goes out there's going to be a lot more businesses swimming naked than the current data would suggest.

"We are not out of the woods at all."

The latest data from the banking regulator showed Judo had 3 per cent of its loan book on repayment pauses as of November 31, a figure Mr Healy said had continued to decline.

"The number of 3 per cent is coming down and there is nothing in that 3 per cent that's causing us any concern," he added.

Across the banking sector, the value of loans on repayment deferrals stood at 2.3 per cent of the \$2.7 trillion market on November 31, down from a peak of 10 per cent in May and June.

Housing loans had a higher incidence of repayment pauses — reflecting 2.8 per cent of mortgages — than small and medium business loans where there were 2.4 per cent of loans on repayment deferrals.

Despite the difficulties faced by a string of other new digital banks, Mr Healy said he was confident about Judo's momentum. That reflected the bank's ability to raise capital twice through the COVID-19 turmoil, and expectations the lending book would surpass \$3bn over the next seven weeks.

The controversial exit of Xinja from the retail banking sector late

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last year cast a cloud over the latest crop of digital banks.

Xinja handed back its banking licence, blaming the pandemic and a difficult capital-raising environment.

Mr Healy said it would take more than the retreat of Xinja to dent confidence in new banks, but noted hefty experience was required to understand the sector's layers of regulation and profit dynamics.

"This is a segment of the banking market where you need subject matter expertise, not simply a

good idea and a slick piece of technology," he added.

"That's been a big problem. There are people, and too many amateurs if you will, who have been attracted to the segment ... you don't like to see new entrants not succeeding but in my mind it only reinforces how difficult it is."

Judo ruled off its latest capital call in December, raising \$280m and delivering the bank a higher valuation of more than \$1.6bn.

The valuation saw research house WhiteSight rank Judo among the top 10 independent digital banks of 2020, by value. Judo trailed the likes of US-based

Chime, and Britain's Revolut and OakNorth, but was the only Australian bank to rank in the top 10 or top 20 in the list by WhiteSight, which was founded by Sanjeev Kumar, a former PwC associate director and research boss at Burnmark.

On the issue of a 2021 Judo initial public offering, Mr Healy said it was an option the board reviewed monthly.

"That's open to us in the second part of 2021, but no firm decision has been made," he said.

It's understood Judo has appointed Goldman Sachs to work on a potential float.