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Official Committee Hansard

SENATE

ECONOMICS REFERENCES COMMITTEE

Reference: Aspects of bank mergers

THURSDAY, 2 JULY 2009

PERTH

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**SENATE ECONOMICS
REFERENCES COMMITTEE**

Thursday, 2 July 2009

Members: Senator Eggleston (*Chair*), Senator Hurley (*Deputy Chair*), Senators Bushby, Joyce, Pratt and Xenophon

Substitute members: (As per most recent Senate Notice Paper)

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Furner, Hanson-Young, Heffernan, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Sterle, Troeth, Trood, Williams and Wortley

Senators in attendance: Senators Eggleston, Pratt and Joyce

Terms of reference for the inquiry:

To inquire into and report on:

- (a) the economic, social and employment impacts of the recent mergers among Australian banks;
- (b) the measures available to enforce the conditions on the Westpac Banking Corporation/St George Bank Limited merger and any conditions placed on future bank mergers;
- (c) the capacity for the Australian Competition and Consumer Commission to enforce divestiture in the banking sector if it finds insufficient competition;
- (d) the adequacy of section 50 of the *Trade Practices Act 1974* in preventing further concentration of the Australian banking sector, with specific reference to the merits of a 'public benefit' assessment for mergers;
- (e) the impact of mergers on consumer choice;
- (f) the extent to which Australian banks have 'off-shored' services such as credit card and loan processing, information technology, finance and payroll functions;
- (g) the impact 'off-shoring' has on employment for Australians; and
- (h) alternative approaches to applying section 50 of the *Trade Practices Act 1974* in respect of future mergers, with a focus on alternative approaches to measuring competition.

WITNESSES

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Committee met at 9.20 am

CHAIR (Senator Eggleston)—I declare open this hearing of the Senate economics references committee inquiry into aspects of bank mergers. This is the fourth hearing on this reference. On 24 November 2008 the Senate referred to this committee a range of matters relating to bank mergers and the practice of offshoring jobs. The committee is due to report to the Senate on 17 September 2009. This inquiry will investigate the economic, social and employment impacts of the recent mergers among Australian banks, with a particular focus on the Westpac-St George merger.

The inquiry is also tasked with investigating the sufficiency of the measures available to enforce any conditions placed on merger parties by the Treasurer; the ACCC's power to force divestiture and its methods for measuring competition; and the adequacy of section 50 of the Trade Practices Act in preventing further concentration in the banking sector, with particular reference to the merits of a public interest test. The inquiry will also investigate the extent to which Australian banks have offshored back office services and the impact of this practice on employment for Australians.

Although these are public hearings the committee may agree to a request to have evidence heard in camera and may determine that certain evidence should be heard in camera. I remind all witnesses that, in giving evidence to the committee, they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to the committee and that such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a Senate committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist upon an answer, having regard to the ground which is claimed. If the committee determines to insist upon an answer then a witness may request that the answer be given in camera. Such a request may of course also be made at any other time.

[9.23 am]

CORFIELD, Mr Ian, Chief Executive, Retail, Bank of Western Australia

SUTTON, Mr Jon Earle, Managing Director, Bank of Western Australia

CHAIR—I welcome the representatives from Bankwest and invite you to make an opening statement. I also welcome Senator Barnaby Joyce, who is appearing by teleconference.

Mr Sutton—First of all, I would like to thank you for allowing Bankwest to appear before the Senate economics committee. I will begin by making some opening remarks. In recent months there has been quite a deal of public comment and discussion about competition in the Australian banking industry, particularly following the acquisition of St George by Westpac and more recently the acquisition of Bankwest by the Commonwealth Bank. I would like to make three points in regard to competition. The first point I would like to make is that Bankwest has quite a different business and operating model to the one that St George and Westpac have. The first point I would like to make is that Bankwest is a wholly owned subsidiary of the Commonwealth Bank but actually maintains an independent board of directors and has its own business strategy independent of the Commonwealth Bank. Bankwest has its own pricing committee, which sets its own mortgage and deposit rates and prices across all of its products. It remains quite independent from the Commonwealth Bank in those decisions. We also operate as a bank and the APRA prudential regulations.

The second point I would like to make is that Bankwest has been a bedrock for the Western Australian community for over 100 years. In fact Bankwest is one of Australia's oldest bank. We very much cherish the iconic brand status that Bankwest has in WA. In recent years Bankwest has expanded its footprint to the east coast to challenge the established players over there. In fact over the last three years there has been some 48 new retail stores and 40 new business banking centres opened on the east coast. We will look to continue to open new centres as and when the economic conditions allow us to do so. Over the last four years Bankwest has been quite successful in growing its customer base and has also increased its employment levels. Four years ago there were about 3,340 people employed at Bankwest, and now there are over 4,700 people. So we have actually grown our workforce.

The third point I would like to make is that Bankwest sees competition as a good thing for Australian consumers. We are actively participating in competition within the industry. We actually offer a different banking experience in everything we do—from the types of products we sell to the look and feel of our retail stores in the major shopping centres where we are located in Western Australia, regional Western Australia and on the east coast. We have extended our opening hours to offer more convenient banking to our customers. I have with me today Ian Corfield, the head of our retail banking section. He will be able to expand on some of those differences that we have.

Since our acquisition by the Commonwealth Bank in October, some 110,000 retail and business customers have joined or rejoined Bankwest. Overall retail and business customer numbers are now up by more than 53,000 since the acquisition—taking our total customer base

to over one million customers: 956,000 in retail and 88,000 in business. Bankwest is going to continue to vigorously participate in the banking sector. We are looking to acquire more customers. We are looking to continue to grow our business over time. I am really looking forward to ensuring that Bankwest not only remains an iconic bank in Western Australia but also has the ability, when economic conditions allow, to continue to grow. On that note, I would be delighted to take any questions.

CHAIR—We were told yesterday that there were some advantages in mergers for smaller banks. What particular advantages do you see having merged with the Commonwealth Bank?

Mr Sutton—I think the first major advantage is that, if I go back to the period in September and October when the world financial crisis was in full swing, the previous owner of Bankwest, HBOS, the parent in particular, found itself in a lot of financial trouble. I think the change of ownership and having a single shareholder—the Commonwealth Bank—has provided a lot of financial strength to Bankwest to allow it to continue to grow its business. I think the unique business model that we have of actually maintaining our own board of directors and maintaining our banking licence allows us to operate independently of CBA and to continue largely with the business model that Bankwest has developed to ensure that there is more competition.

CHAIR—You talked about operating independently of the CBA. But in its submission the CBA says:

BankWest's operating model would be significantly scaled back given the parent company's reduced risk appetite. Under these circumstances, the BankWest business would no longer continue to grow and competitive pricing would cease.

We are interested in exploring that a bit because one of the things you said was that you would be continuing to expand your branch network in the eastern states but on this comment in the CBA submission that would appear to be contrary to the Commonwealth Bank's view of what might be your future.

Mr Sutton—Since the acquisition, Bankwest has conducted a review of its operations. It would be fair to say that the previous owners were looking to expand its retail operations on the eastern seaboard by another—

Mr Corfield—One hundred stores.

Mr Sutton—Yes. Since the acquisition, Bankwest has reviewed all of its business operations. With the current economic environment and the significant downturn in the Australian economy, it is prudent to scale back the size of that investment. What we are doing is making a commitment to maintain the east coast stores that have already been opened, and certainly we will look to, as opportunities arise, perhaps open up more stores over time. We are certainly actively looking to do that. But, again, it is about cutting your cloth to the economic environment we have at the moment.

CHAIR—We understand that, but would you continue to expand in the eastern states or are you just planning to expand in WA?

Mr Corfield—We are actively at the moment looking at potential future sites on the east coast and in WA. We do want, as John said, to grow the business. We are very much committed to operating the business on a national basis. I think some of those comments from CBA refer in part to what would have happened to Bankwest if we had stayed under HBOS's ownership. I think, if we had, certainly our ability to compete in the market would have been severely curtailed. But now that we are part of one of the strongest banks in the world our ability to continue to compete is significantly enhanced.

CHAIR—Very well. Yesterday we had some evidence given to us by the Bank of Queensland. They said in effect that Bankwest was really the Commonwealth Bank in disguise and that also St George was really Westpac in disguise in the sense that because you were part of a bigger bank with access thereby to cheaper funding—for example, cheaper rates on the bank guarantee—you were able to offer your customers a better deal in terms of the cost of money than the other two independent banks were. That was simply because you were in fact part of a bigger bank and that amounted, in effect, to unfair competition and giving you an unfair competitive advantage. Would you like to make any comment on that?

Mr Sutton—I refute that we have an unfair competitive advantage. I cannot possibly make a comment on the Bank of Queensland's cost of funds. What I will say is the Commonwealth Bank is our shareholder but the business model that we have adopted is materially different to what, say, St George and Westpac have. They actually answer to a board of directors. We set our pricing for our mortgages, deposits and loans independent of the Commonwealth Bank. There has been a lot of media coverage over the recent few weeks about the Commonwealth Bank's decision to increase their mortgage rate. You will notice that Bankwest has not increased their mortgage rate out of cycle. The cost of bank funds is a mix of the deposit base a bank has and its access to wholesale funds. You cannot compare what Bankwest is doing to what the Bank of Queensland is doing.

Mr Corfield—The Bankwest brand actually appeals to a different set of customers to the CBA brand. Whilst obviously the bringing together of the two banks allows the CBA group to appeal to more customers, we certainly are not the CBA in disguise. The inference I take from that is that we are very similar to them; we actually try to do quite different things and therefore appeal to different customers.

CHAIR—Thank you. I understand that. What about the bank guarantee though? Because you are now an integral part of the Commonwealth Bank, do you benefit from a lower cost for that guarantee?

Mr Sutton—Bankwest has not accessed the guarantee. A portion of our funding does come from the Commonwealth Bank and the Commonwealth Bank has obviously issued funds through the government guarantee

CHAIR—What does that mean in terms of the price of money you offer your retail customers, though? Does that mean you are able to offer a better deal than, say, the Bank of Queensland or Suncorp? Does it mean that the net profit for you on mortgages is greater because the price of money to you as a bank via the Commonwealth Bank is cheaper?

Mr Corfield—From a retail perspective, the bank is actually 60 per cent self-funded, so the majority of our funds come from deposits that our customers leave with us. The other 40 per cent comes from a mix of securitisations and wholesale funding. Obviously, only a proportion of that wholesale funding is actually guaranteed by the government, so the net impact the guarantee is having on our cost of funds is actually reasonably minimal. So I certainly would not feel that we had a distinct competitive advantage over other banks as a result of it.

Mr Sutton—I would like to point out also that Bankwest is very committed to providing competitive products to its customers. For example, we have a Smart eSaver deposit product out. It offers a high rate of interest. We have been a leader with our Rate Tracker Ultra product, which again has provided significant competition across the industry for home mortgages.

CHAIR—Have you maintained employment levels since the merger?

Mr Sutton—In April I announced that there were going to be 400 job cuts. The reason for the 400 job losses was primarily around the rapid deterioration in the Australian economy from the period that the acquisition was announced in October to the completion in December. Also, it was in response to a very high cost base that Bankwest had in relation to its rapidly expanding plans. So the prudent thing to do was to reduce. Unfortunately, we had to lose 400 jobs, but we were quite successful in managing that reduction in jobs in that we redeployed over 137 people across Bankwest and into CBA. Of the balance of 210 jobs where people were retrenched, 118 were accepted voluntary and 92 were involuntary. It was a very tough decision to make post an acquisition, but we have done everything we can to ensure that we found alternative employment for those people affected, and, for those for whom we were not able to find alternative employment within Bankwest or across CBA, we have been working very closely with them to assist them to gain employment outside the bank.

I would like to go back to the previous remarks I made. Four years ago, Bankwest was employing some 3,340 people and now it is 4,700. So Bankwest has been a significant employer in the financial services industry. As CEO and managing director of the organisation, we want to continue to grow the business. By growing the business you actually get the right to employ more people.

CHAIR—You mentioned your high cost base as a reason for needing to reduce your workforce numbers. What are the reasons for your high cost base?

Mr Sutton—The high cost base was a primary effect of the previous owners. The previous owners were looking to rapidly expand their business right across Australia, and the Bankwest business was also supporting other businesses that HBOS owned that were not acquired. That resulted in a higher cost base.

CHAIR—I see. So you were supporting other businesses.

Mr Sutton—The previous owners of Bankwest were supporting other businesses within the HBOS group.

CHAIR—Out of the Bankwest workforce?

Mr Sutton—Yes.

CHAIR—One of the other issues this inquiry is concerned about is offshoring backroom work. Do you offshore to the Philippines or India or somewhere like that?

Mr Sutton—We absolutely do not offshore and we have absolutely no intention to offshore any of our jobs.

CHAIR—Does the Commonwealth Bank offshore?

Mr Sutton—The Commonwealth Bank does not offshore.

CHAIR—Thank you. Senator Pratt.

Senator PRATT—I wanted to begin by asking how you had characterised the added risk to bank jobs within Bankwest—clearly, there has been a significant number of cuts already—had the acquisition by the Commonwealth not gone ahead?

Mr Sutton—My view on that is that there would have been a much greater risk of much higher job losses if the acquisition had not proceeded. The reason I say that is that the parent company, HBOS Plc in the UK, was in extreme difficulty and, with that extreme difficulty, they had to sell the Bankwest business. In fact, HBOS Plc was subsequently taken over by Lloyds, which is now 43 per cent owned by the UK government. We are talking about something that did not happen but if it had have happened my view is that there would have been substantial job losses.

Senator PRATT—With respect to the job losses that have occurred thus far, in what sectors of the banking business have they occurred?

Mr Sutton—No front-line sales jobs were affected. The job losses were split between the east coast and the west coast. The job losses primarily came out of back-office operations and service operations.

Senator PRATT—Such as?

Mr Sutton—It came across a range—across IT, out of HR, out of finance—in the organisation.

Mr Corfield—Most of the jobs that went were management roles rather than people doing such things as answering the phones or doing processing, because, as Jon said earlier, we are still growing the businesses. So none of those front line or front-line support roles were touched as a result.

Senator PRATT—Which activities does the bank share with the Commonwealth Bank?

Mr Sutton—Very, very few activities. Part of the management philosophy for Bankwest was to leave it as a standalone organisation so we share very few activities at all with the Commonwealth Bank. Some of the things that we have done are around drawing on the expertise

of the Commonwealth Bank around, say, managing our occupancy or employing some of their expertise. Senator, you may or may not know that we absolutely have a significant investment here in Perth in Raine Square at the moment that is going to be the new head office for Bankwest. We are actually using some of the Commonwealth Bank's expertise around management of that project. That is an example of where we do share expertise.

We are also very keen to allow for career path development of our employees across both organisations. We see it as crucial to ensure that people get greater opportunities to expand their careers in a much broader group. So we are actively encouraging people to move across between the groups.

Senator PRATT—Other than career development are there any other plans to bring together the Commonwealth and Bankwest activities in any particular areas?

Mr Sutton—At this stage, no.

Senator PRATT—If the ACCC or the Treasurer, out of concern for maintaining competition, had approved the Commonwealth Bank takeover of Bankwest only if it sold some of its operations, how would something like that have played out in your view?

Mr Sutton—That is a question you need to direct to Mr Norris, the CEO of the Commonwealth Bank. I am here in the capacity of the managing director of Bankwest.

Senator PRATT—In which communities do you have two banks? Where do both the Commonwealth Bank and Bankwest have a bank, and is there going to be a commitment to maintain two shopfronts within those areas?

Mr Corfield—We are absolutely committed to maintaining our presence in WA and on the east coast. The honest answer to your question is that I do not know. The reason I do not know is that I have not looked because we have got no intention of bringing the shop fronts together. We, as Jon said, want to grow the Bankwest brand; it is an iconic brand in Western Australia. We are absolutely committed to being the number 1 bank in this state and therefore we have got no intention of bringing those together.

Senator PRATT—So you have got no intention of withdrawing your presence from any places where there is an existing branch. In turn, the Commonwealth Bank must know where you have got branches, so—

Mr Sutton—Under the terms of the Treasurer's approval, both organisations must keep their branches open within Western Australia. The other point I would like to add around this is—

Senator PRATT—For how long?

Mr Sutton—The Treasurer's approval was for—

Mr Corfield—Three years.

Mr Sutton—three years. The other point I would like to make about this, and I think it is really important, is that if you have been a student of any bank mergers or acquisitions in Australia over the last 20 years you would note that considerable value has been destroyed by the acquiring institution pulling down the sign and replacing it with their sign. We are absolutely committed here at Bankwest to maintaining the Bankwest brand and presence.

Senator PRATT—In terms of the job cuts that took place in April, you talked about that being due to the deterioration of the economy. Could you give us a bit more of an explanation behind that? I appreciate that we are in the midst of a very significant global financial crisis, but can you give us the underlying parameters of how that has resulted in those job losses so that we can differentiate between that and the acquisition.

Mr Sutton—Very simply, it started with the cost base. Bankwest's cost base is a key measure cost-to-income ratio. The cost-to-income ratio was some 70 per cent, which is a lot higher than what the major banks are and what some of the regional banks are. That high cost base was as a result of the Bankwest business supporting elements of the HBOS business and the Bank of Scotland business, which was operating out here as well. That is one element of it. The second element is that between October and December—or to the period of April—there had been a significant decline in Australia. Business levels were down as a result of the previous owner's inability to fund itself; it is a business that virtually stopped and stood still. Regrettably, we had to make some changes around the employment levels within the bank. Again, I want to point out that we have done everything that we can to ensure that people found alternative employment within Bankwest or across the CBA group.

Mr Corfield—If you look at that six-month period from October to April, business credit went backwards during that period, the mortgage market slowed down dramatically, the cost of deposits went up significantly and all banks provisions increased, so the world was a completely different place at the point where we were announcing job losses to the previous point when the acquisition had actually gone through.

Mr Sutton—The other point to make on this is that the previous owners had to stop writing business; they could not continue to write business given the funding pressures they were under. So, business lending and mortgage lending had stopped under the previous owners.

Senator PRATT—How far are we into the three-year period in which there are to be no closures of branches?

Mr Sutton—I remember quite vividly that the acquisition and the Treasurer's approval came, I think, on 19 December. That is when the sale was completed.

Mr Corfield—That is right. I do not know if this is the underlying piece behind your question, but we do not have a clock on the wall for when three years runs out.

Senator PRATT—That is where I was coming from.

Mr Corfield—We have no intention or plans to close any of our stores or reverse any of the decisions that were part of that ruling.

Senator JOYCE—Does Bankwest have a treasury desk that is separate from the Commonwealth Bank's treasury desk?

Mr Sutton—We still have elements of a treasury desk and under the approvals given by APRA we do outsource a portion of our wholesale funding management to the Commonwealth Bank.

Senator JOYCE—So basically—and I am being quite frank here—the treasury desk is now predominantly the Commonwealth Bank's treasury desk. If I ring up to lock in a rate, who would I speak to? Would I speak to the Commonwealth Bank's treasury desk or a combination of the Commonwealth and Bankwest treasury desks? Is there an actual separate treasury department that does that or is it now encompassed by the Commonwealth Bank?

Mr Sutton—Sorry, Senator; I misunderstood your question. Are you asking in regard to customer dealings with a treasury desk for foreign exchange or are you asking about—

Senator JOYCE—Both. Just starting with the most fundamental role, if I get myself a loan and I want to lock in the rate and the business development manager rings up to lock in the rate, who would he talk to? Would he talk to the Bankwest treasury desk, as it was before? Would he talk to a combination of the Bankwest and CBA treasury departments? Or would he just talk to the Commonwealth Bank? Do you still have a treasury department like you did before?

Mr Sutton—If you are a customer and you ring up to get a business loan, a business rate or a home mortgage rate, you would talk to someone at Bankwest.

Senator JOYCE—Right. Is the securities department now a combination of the Bankwest and CBA securities departments or is it still the Bankwest securities department?

Mr Sutton—Are you talking in terms of mortgage securities?

Senator JOYCE—Yes.

Mr Sutton—Then it is Bankwest.

Senator JOYCE—What roles have been combined with the Commonwealth Bank now?

Mr Sutton—Very few roles have been rolled into the Commonwealth Bank. We have an outsourcing agreement with the Commonwealth Bank for the management of our wholesale funding.

Senator JOYCE—So what is the role of the Commonwealth Bank? Is it basically as a shareholder wanting a return on its shares or is it an actual owner? Is there still a dividend that is supplied by Bankwest? Does Bankwest still exist as a corporation delivering a dividend back to the Commonwealth Bank or is it just a banner?

Mr Sutton—No. Bankwest has its own banking licence. It is regulated by APRA. The Commonwealth Bank acquired the legal entity. The way the structure works is that I answer to the Bankwest board of directors. There is one shareholder director on that board.

Senator JOYCE—So if the Commonwealth Bank wanted to in the future it would be possible to just sell off Bankwest to another entity without too much problem. If they wanted to they could sell it to somebody else.

Mr Sutton—I suppose that is possible, but we want to ensure that Bankwest is a very successful organisation so they do not want to sell us.

Senator JOYCE—Of course. I imagine that at the forefront of your mind is that you want to keep your job. With the partisan nature of the state you are in especially, Western Australia, was there any movement of the customer base because it was concerned about Bankwest basically being run by an eastern stater?

Mr Sutton—As a person who arrived from the eastern states on 5 January, I would like to say that I have been warmly welcomed and embraced by the WA community. Initially when the acquisition was announced in October there was a dip in customer satisfaction levels, but Bankwest has actually grown its customer numbers in the eastern states and also in Western Australia.

Senator JOYCE—Whereabouts did you come from?

Mr Sutton—In my previous role at the Commonwealth Bank I was head of regional and rural banking. I have been with the Commonwealth Bank for 15 years.

Senator JOYCE—So you were basically parachuted in by the Commonwealth Bank. Were there other key management roles from the Commonwealth Bank placed into Bankwest? I cannot see any problem if that is the case. That would make sense. They did buy it.

Mr Sutton—It is a very deliberate strategy to ensure that we have the right people in the right jobs. There were two additional people who came across from the Commonwealth Bank—Peter Deans, the chief risk officer, and Jason Clifton, the CFO. We have kept the majority of the Bankwest management team because they have done a great job.

Senator JOYCE—Do you compete against the Commonwealth Bank for business?

Mr Sutton—Yes, we do. I am quite proud to say that.

Senator JOYCE—Is this on all levels or deals? Is there a high commercial end of the market—on higher deals—that does not? For instance, it may be a deal of over—I do not know; it has been a while since I was in banking—say, \$50 million. Does that go to the same credit bureau as a deal that is operated by Bankwest?

Mr Sutton—The way we are operating Bankwest at the moment is that there are certain segments of the market where Bankwest actively competes and there are other segments of the market where we just cannot possibly compete. An example of that is in the very large company listed space. For example, if a large listed company came to Bankwest and said, ‘Could we borrow \$300 million or \$200 million,’ we would not have the expertise or the risk appetite to play in that large company listed space. We want to be very competitive in retail banking and we want to be very competitive in business banking. The reason we cannot play in the very large

listed company space is that the balance sheet Bankwest has does not allow us to do that. Nor do we have the expertise to do that.

Senator JOYCE—Why don't you? Now that you are owned by the Commonwealth Bank, surely the Commonwealth Bank has a duty of stewardship to reduce costs and get the best return to its shareholders. Wouldn't it surely get that by closing down a duplication of services where Bankwest is proximate to CBA branches, and then amalgamate the treasury department, amalgamate the securities department and get rid of half of your directors because they are superfluous and just go back to a core Commonwealth Bank business?

Mr Sutton—That is a great question. Everyone asks that question but I will go back to some comments that I made. If you look at any of the previous acquisitions that have been made over the last 15 or 20 years you find that there's been considerable value destroyed by absolutely doing just that. I can imagine in the state of Western Australia or even in your state, Senator, that if somebody went and managed to pull down all the Bankwest signs and replaced them with Commonwealth Bank signs the customers would vote with their feet and leave in droves. That is what has happened in the past.

Senator JOYCE—But where would they go in Western Australia now if that was the case? There is nowhere else for them to go.

Mr Sutton—They may want to go to another institution like ANZ or somewhere else. We are absolutely committed to maintaining the brand presence of Bankwest.

Senator JOYCE—I always say there are only three states in Australia: there is Western Australia, Queensland and inebriated. What sort of guarantee can you possibly give? If I was in the corporate structure of the Commonwealth Bank I would be looking at progressing that portfolio across to a Commonwealth Bank banner, because it is in my interest to reduce costs. Is there any guarantee in the long-term future that Bankwest will survive as a name? Right down to signage; why am I going to create two lots of signage when I can cut my costs by producing one? Why would I have a Bankwest across the road from a Commonwealth Bank creating competition, forcing down my margins, increasing my labour costs and increasing my overheads? How can that be worthwhile to my shareholders?

Mr Corfield—I think it comes back to your view of the customer. If you thought that all customers would be attracted to your one brand—the Commonwealth Bank brand—then that might be the right strategy to take. But having looked at it very closely what we have found is that there are a good chunk of customers who are attracted to Bankwest for completely different reasons to the reasons that customers go to the CBA. So therefore if you took all those signs down, if you closed the brand out and shut all of the branches you would actually lose those customers. They would not simply migrate to the core brand. Therefore you would have destroyed the value that you had bought in the acquisition.

I guess John and I cannot give anyone a cast iron guarantee of anything but we can say that there is very considerable value in the Bankwest brand. We are absolutely committed to those customers and that is why we are going to continue to run it as an independent brand and business.

Senator JOYCE—The reason why I asked that question is that I am thinking of the transformation process where we got QIDC, Metway Bank and Suncorp. Of course it was all beautiful because QIDC disappeared and it became Suncorp-Metway. Ultimately, in the end, everybody just ended up as part of Suncorp. All these things start off saying, ‘We’re going to look after you all,’ but where they finish off is, ‘We’re going to cut costs,’ because that is what the corporate structure demands. In fact you are in breach of your duty to your shareholders if you do anything else but that. So my question is: apart from the obvious partisan nature of Western Australia, which is one of the strengths of Western Australia and one of the great things about it, apart from that sort of partisan cultural belief of Western Australia, there is really nothing stopping Bankwest from disappearing.

Mr Sutton—The business model we have put in place actually recognises the strength of WA. I go back to the initial reasoning why the CBA was so attracted to Bankwest—that is, in Western Australia CBA did not have a great presence and Bankwest is a great iconic brand. That was very, very attractive to the CBA; and we want to actually maintain that brand. In the eastern states Bankwest has been really successful at creating a challenger brand, which has a materially different feel about it to what the other four majors do. We want to protect that and actually continue down that path over time. So I think from a Bankwest perspective, and I cannot stress this enough, we absolutely want to maintain the brand in WA—and we also want to maintain the challenger brand that has been created in the eastern states and continue to grow that customer base. There is no guarantee that in the next 20, 30 or 40 years any brand will actually stay around.

Senator JOYCE—How many banks do you think Australia should have?

Mr Corfield—As many as its customers demand. The reality is that the biggest protection for any brand is its customers. I think in Bankwest we have an iconic brand in WA and a highly respected brand on the east coast, and I think frankly that is the biggest protection for this business going forward.

Senator JOYCE—Do you believe there is ease of entry into the banking market? If I, in a flight of fancy, want to set up a bank, I have not got a snowflake’s chance in hell of doing it, do I? It is a highly restricted market—that is one of the reasons why it is successful. Entry into the market is extremely difficult.

Mr Sutton—I think those are questions that you have to actually put to regulators and to government. What I will say is that there have been some recent press articles over the last few days talking about the strength of the Australian financial system when you compare it to the rest of the world. I think it is really incumbent upon Australia to have a strong, vibrant banking sector, and I think that is what we have at the moment.

Senator JOYCE—That is a wonderful statement but how do we keep a vibrant market when entry to the market is quite evidently difficult. If it was not, we would see new brands and new banks emerging domestically. The only banks we ever seem to be able to rely on to emerge into the market are overseas banks. So their growth benefits some place overseas. Our own capacity as a domestic economy to grow banks is just not there. We just do not see it. So should we not inherently be highly circumspect about further mergers in our domestic banking structure because we have proven, through our own legislative overheads or because of other reasons—or

maybe it is because of the practices of the banks themselves—that we are not able to grow our own domestic banks?

Mr Sutton—From a Bankwest perspective we are looking to continue to grow our business. We have been growing our customer numbers. We will look to do so on the eastern seaboard and over here in Western Australia.

Mr Corfield—I think it is worth adding that 12 months ago there were lots of challenger brands in the market place. A number of those have struggled as a result of the funding difficulties over the last 12 months but the reality is, and we are preparing for this reality, that a lot of brands will come back into the market as soon as the funding environment lifts. So think it is right that there are regulatory protections that mean that not everyone can jump into the marketplace, but equally there are plenty of businesses that do.

Senator JOYCE—Who does the assessment when your credit rating is assessed? Is it Standard and Poor's?

Mr Sutton—We are a wholly owned subsidiary of the Commonwealth Bank, and obviously Standard and Poor's and the other rating agencies do their due diligence on the Commonwealth Bank group, of which Bankwest is a part.

Senator JOYCE—So as far as your rating agency is concerned you are the Commonwealth Bank?

Mr Sutton—We enjoy a AA credit rating.

Senator JOYCE—Does that mean they actually do an assessment of Bankwest? Or do they do an assessment of the Commonwealth Bank?

Mr Sutton—We recently met with Moody's. That was part of their overall assessment of the Commonwealth Bank.

Senator JOYCE—So as far as Moody's are concerned you are the Commonwealth Bank. Why should anybody else consider you to be anything but the Commonwealth Bank?

Mr Corfield—Just to be clear, they give a separate rating to Bankwest. Of course in doing that they would look very closely at what the Commonwealth Bank group's position is. But they are coming and speaking specifically to Bankwest.

Senator JOYCE—But you are a 100 per cent owned entity of the Commonwealth Bank.

Mr Corfield—Absolutely, in exactly the same way that we were a 100 per cent owned entity of HBOS and therefore our rating at that point was linked to what the rating of HBOS was.

CHAIR—You said that you had a AA rating. Does that mean that in your own stead as Bankwest you have a AA rating?

Mr Sutton—Yes.

Senator JOYCE—HBOS though is not the Commonwealth Bank. It is a separate bank. But now you are the Commonwealth Bank and so really the banking market in Australia is shrinking.

Mr Sutton—You could look at it that way, but the way Bankwest is set up and running at the moment it is vigorously competing in that market for customers. We actually have different products with different prices to those of the Commonwealth Bank.

Senator JOYCE—Who develops your pricing matrix and where is that developed?

Mr Sutton—As I said in my opening remarks, Bankwest has its own pricing committee for its own products—mortgages, business loans, car loans, et cetera—and those pricing decisions are made completely independently of the Commonwealth Bank.

Senator JOYCE—Who is on that committee?

Mr Sutton—I chair that committee and it is made up of my executive team.

Senator JOYCE—How many are there on that committee?

Mr Sutton—It is me; Mr Corfield, who is here; Mr Paul Clark, the head of the business bank; and the CFO.

Senator JOYCE—How many of those people came from the Commonwealth Bank? I know that you did, but how many of the others did?

Mr Sutton—Me and the CFO. Again, let me reassure you that I do not have Ralph Norris ringing me every second day or once a week, or anyone from the Commonwealth Bank, telling me how to set our prices.

Senator JOYCE—I do not imagine you would. He might start ringing you though if things come unstuck. What is the other regional bank in Western Australia? Is there any other bank competing with Bankwest in Western Australia now?

Mr Sutton—Do you mean a regional bank?

Senator JOYCE—We have the Bank of Queensland and Suncorp in Queensland. Apart from Bankwest, is there another Western Australian based bank?

Mr Corfield—There are a number of very strong credit unions in Western Australia, which provide competition, and also obviously the other major banks are very serious competitors.

Mr Sutton—We also have the Bank of Queensland and Bendigo Bank here.

Senator JOYCE—So which is the biggest credit union in Western Australia? I am asking about Western Australian born and bred credit unions. Which one is the biggest?

Mr Sutton—I do not know the answer to that question.

Senator JOYCE—Can you name one that pops into your head?

Mr Corfield—The Police and Nurses Credit Society is down the street from us in St George's Terrace. They provide very strong competition.

Senator JOYCE—Would you have any idea of what the size of their book is in proportion to yours? Would it be half the size?

Mr Sutton—No, I do not.

Mr Corfield—We take the view, and I guess this is the approach of the group as a whole, that if Bankwest grows then net on net the CBA group is benefiting by bringing more customers to the group. So we focus on our bank and trying to grow our bank rather than worrying about what the competition do.

CHAIR—Senator Joyce, I think we will have to make this the last question because we have another hearing for another reference and we are running out of time.

Senator JOYCE—Okay, what I am getting at is that for all intents and purposes we are talking about different brands of hamburgers from the same shop. They might have different names but the ultimate source of revenue and source of profit all comes back to the same place. In your career path, would you ever envisage heading back into the internal corporate structure of the Commonwealth Bank?

Mr Sutton—I am here to make sure that Bankwest grows and thrives as a business and I am very much looking forward to ensuring that Bankwest is a successful business. Who knows where our career paths will take us, Senator.

Senator JOYCE—There is a marvellous mission statement. Thank you very much for that.

CHAIR—I thank the witnesses for appearing. That concludes this hearing.

Committee adjourned at 10.10 am